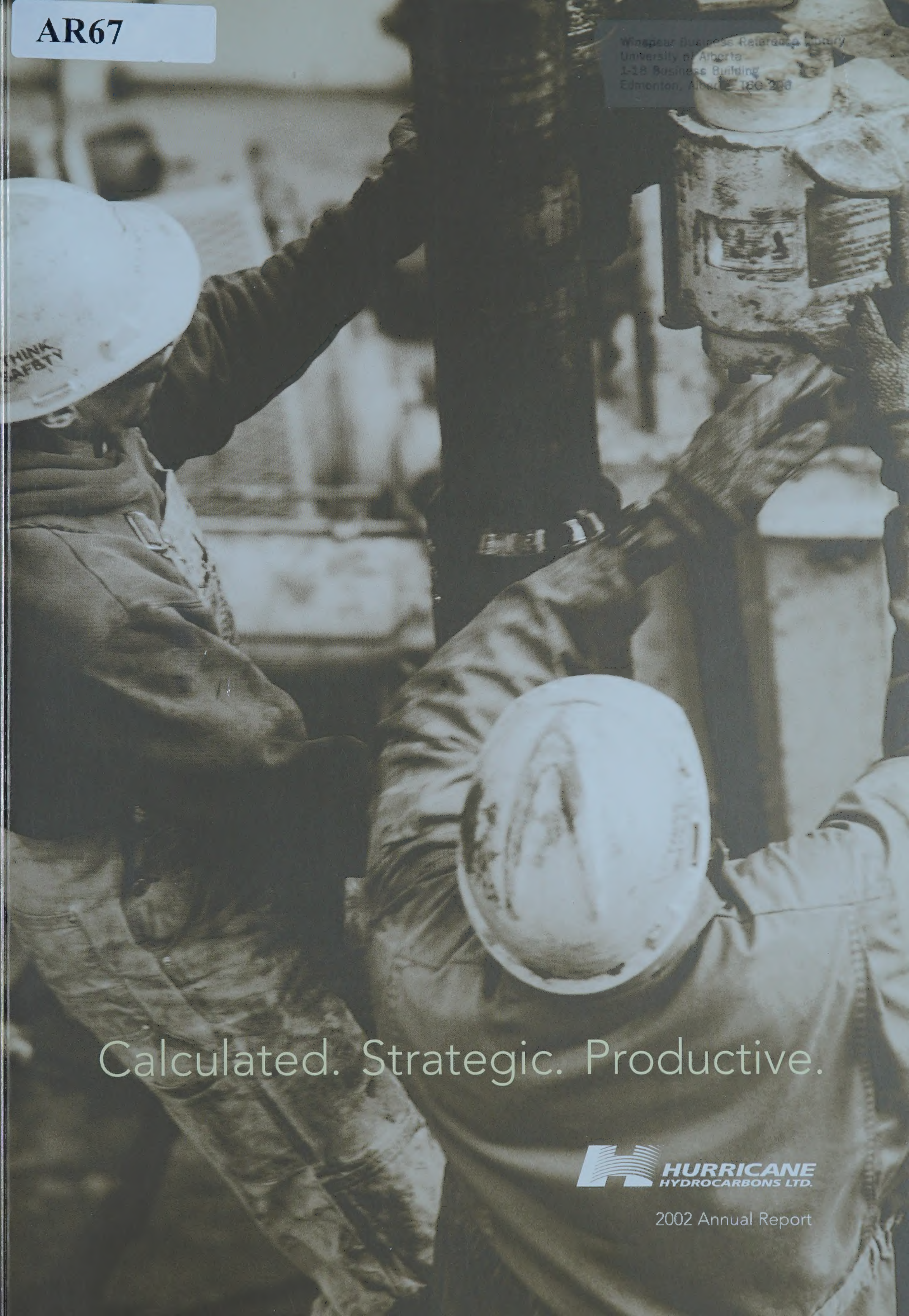


Calculated. Strategic. Productive.

HURRICANE HYDROCARBONS LTD.

2002 Annual Report

Company overview

Hurricane Hydrocarbons Ltd. ("Hurricane", the "Corporation" or the "Company") is an independent, integrated, international energy company, operating in the Republic of Kazakhstan, engaged in the acquisition, exploration, development and production of oil and gas, refining of oil and the sale of oil and refined products.

The Corporation is celebrating its sixth year of operations in Kazakhstan.

As of January 1, 2003, Hurricane's proved plus probable reserve base has been independently assessed at 518.3 million barrels of oil and 27.1 bcf of gas.

Hurricane has one class of shares that are listed in Canada, the United States and Germany.

NOTICE OF SHAREHOLDERS' MEETING

The Annual and Special General Meeting of Shareholders will be held at 11:00 a.m. on May 7, 2003 at the Albany Club of Toronto, 91 King Street East, Toronto, Ontario, Canada.

All shareholders are encouraged to attend and participate in the meeting. Those unable to attend should vote by proxy.

The terms used throughout our Annual Report are defined on the inside of the back cover.

All numbers are in U.S. dollars unless otherwise indicated.

Continued Growth.

The strength and value of Hurricane can be measured by how effectively the entire team, both management and employees, worked together to meet the challenges in 2002. The result – record production with a 35% increase compared to 2001, near record financial results, a sixth year of reserve growth and increased Downstream efficiencies.

HURRICANE
HYDROCARBONS LTD.

2002 Highlights & achievements

Achievements

- record production, 35% increase compared to 2001
- near record financial results
- increased reserves for the sixth year in a row
- commenced construction of KAM pipeline
- exploration success at North Nurali
- completed first oil and gas syndicated loan in Kazakhstan
- completed further divestitures of non-core activities
- Hurricane's common shares listed on the New York Stock Exchange

FINANCIAL AND OPERATING HIGHLIGHTS
Years ended December 31
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000
FINANCIAL			
Net Income	**162.6**	169.3	154.9
Per share *(basic) ($)*	**2.01**	2.12	2.19
Cash Flow	**216.8**	200.3	179.4
Per share *(basic) ($)*	**2.68**	2.51	2.54
EBITDA	**343.6**	291.5	288.0
Capital Expenditures	**140.1**	110.0	21.6
Total Assets	**696.7**	575.9	414.6
Shareholders' Equity	**272.5**	132.1	185.0
Shares Outstanding at December 31	**78,956,875**	80,103,784	79,808,673
Number of Employees at December 31	**3,306**	4,058	4,107
OPERATING			
Production *(bopd)*	**135,842**	100,877	84,090
Reserves *(proved plus probable) (mmbbls)**	**518.3**	512.3	487.6

* as of January 1 of the following year

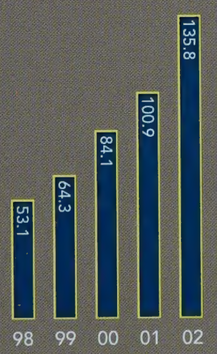
Operating Achievements

- increased production by 35%
- replaced 120% of 2002 production
- five-year finding and development costs of $1.07/bbl based on proved reserves
- top quartile operating costs of $1.22/bbl

2003 Objectives

- increase production by 22%
- reduce export transportation costs
- transport crude via the KAM pipeline
- increase oil movements to China
- decrease operating costs below those of 2002

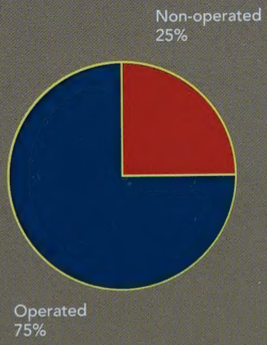
Production
(mbopd)



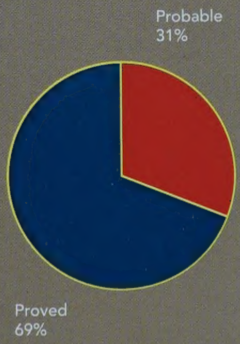
Reserves
(mmbbls) (as of January 1 of the following year)

Cash flow
(millions of U.S. dollars)

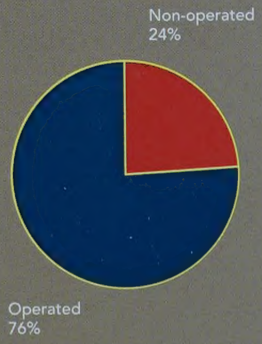
2002 Production



2002 Reserves



2002 Cash flow



A Message from Mr. Bernard Isautier,
President and Chief Executive Officer

Challenges are a natural part of business. Sometimes these challenges are directly related to meeting or exceeding aggressive strategic goals. Other times they arise due to internal circumstances, or even external events. Whatever the situation, I do not view challenges as obstacles – because challenges are merely the milestones of success.

I believe the strength and value of Hurricane can be measured by how effectively the entire team, both management and employees, worked together to meet the challenges in 2002. The result – record production with a 35% increase over 2001, near record financial results, a sixth year of reserves growth and increased Downstream efficiencies.

In September 2002, Hurricane was listed on the New York Stock Exchange and became recognized as an international oil and gas company that can not be ignored. As the second largest foreign oil producer in Kazakhstan, we produce 15% of the nation's oil. As of January 1, 2003 our reserves were independently determined to be 518.3 million barrels of oil and 27.1 bcf of gas, by McDaniels & Associates, on a proved plus probable basis, and using escalating prices discounted at 10% they were valued at over $2.3 billion before tax.

RECORD RESULTS

2002 represents the sixth year of Hurricane's operations in Kazakhstan, and our second full year as an integrated company. It is a year where our team remained focused on our core business and once again posted many new performance records.

- Average production increased by 35% to 135,842 bopd over that of 2001.
- Cash flow reached $216.8 million, an increase of 8% over 2001.
- Net income was $162.6 million, the second best in Company history.
- For the sixth year in a row, we increased our reserves, replacing 120% of our production.

TRANSPORTATION COSTS

Reducing transportation costs continues to be one of our most important priorities. We are reducing our reliance on intermediary trading companies and are engaged in securing our own fleet of railcars. The 177 km KAM pipeline, which will replace 1,300 km of pipeline and rail transportation, will reduce transportation costs by $2.00 – $2.50 per barrel shipped. We remain cautiously optimistic that we will gain access to the CPC pipeline in 2003 to obtain further cost savings.

UPSTREAM OPERATIONS

Hurricane's production target for 2003 is a 22% increase in production to 165,000 bopd. This will be accomplished through the continued exploitation of our existing fields and the development of our exploration success in 2002.

From an exploration perspective, the South Turgai basin, where Hurricane operates, has been identified by the United States of America Geological Survey as having reserve potential in the billions of barrels. We will continue to drill exploration wells to uncover and tap into that potential.

December 9, 2002 – Mr. Bernard Isautier looks
on just moments after Hurricane opens
the trading floor at the New York Stock Exchange

Behind all the numbers and record results is Hurricane's most important asset – our people. Our success comes from those who develop and implement our ideas and execute our strategy.

DOWNSTREAM OPERATIONS

Significant progress was made in 2002. The product yield slate of the refinery was enhanced, additional low-cost operational changes were implemented and further energy improvements have been identified. This has led to an overall improvement in profitability.

HEALTH, SAFETY AND ENVIRONMENT

In 2002, Hurricane commenced construction of a $35 million 55-megawatt power plant located at the Kumkol field. This plant will be commissioned in the third quarter of 2003. Once operational, it will significantly reduce emissions by utilizing associated gas produced from the Kumkol fields and will also provide a reliable source of electricity for our field operations. As a joint venture partner in the Akshabulak field, we are participating in a project that will provide natural gas to the Kyzylorda region.

We continue to implement programs which focus on improving safety. Our safety record improved significantly in 2002 as reported incidents were reduced in our Upstream operations by 50% from 39 in 2001 to 20 in 2002 and we had four lost time accidents at our refinery in 2002 compared to five in 2001. We expect to see further improvements in 2003.

COMPANY LEVERAGE

In early 2003, Hurricane announced that it had completed two new financing agreements totalling $350 million. The first was a $225 million export term facility which has a four year maturity and was underwritten by a consortium of European banks. The second was a $125 million, seven year notes issue. Both of these facilities have resulted in materially lower borrowing costs and have enhanced our financial flexibility by extending our average debt profile.

LOOKING FORWARD

Hurricane's strategy for continued success for 2003 and beyond will be to focus on:

- Opening new transportation routes to international markets.
- Completion and commissioning of the KAM pipeline by mid year.
- Increasing production and reserves through development of our existing fields and through acquisitions in Kazakhstan.
- Exploration and development in the South Turgai basin using western technology.
- Improving the economic yield of the Shymkent refinery.

PEOPLE BEHIND THE RESULTS

Behind all the numbers and record results is Hurricane's most important asset – our people. Our success comes from those who develop and implement our ideas and execute our strategy.

I would like to thank all of our employees for a job well done.

Respectfully submitted on behalf of the Board of Directors,

BERNARD F. ISAUTIER
President and Chief Executive Officer

March 3, 2003

Hurricane's most
important asset – our people

President's questions and answers

Q Can you give us a brief historical sketch of Hurricane?

A Hurricane first entered Kazakhstan in 1991 through a joint venture. It acquired a state owned oil and gas company in 1996 and the Shymkent refinery in 2000.

Since the acquisition in 1996, Hurricane has consistently increased reserves, and has more than tripled production. The Company, through internally generated growth, has become the second-largest foreign oil producer in Kazakhstan. With the addition of the Shymkent refinery, Hurricane became a fully integrated oil company, and has become the largest refiner in Kazakhstan.

Q What is Shymkent and why was its acquisition so crucial?

A Shymkent is the newest of only three refineries in Kazakhstan. Hurricane was dependent on Shymkent for the commercialization of its crude oil, for both the domestic and export markets. This dependence was exacerbated as the regional market for Hurricane's product contracted because of the collapse of the Russian ruble in August 1998. The combination of these two factors resulted in the Company encountering severe difficulties in the marketing of its crude oil in 1999. The strategic acquisition of Shymkent by Hurricane allowed the Company to secure an outlet for its oil. This resulted in cost savings and created a platform for Hurricane's continued growth.

Q What opportunity did the CPC Pipeline represent?

A The Company's single largest cost is the transportation of crude to export markets. The acquisition of an equity position in CPC would have led to an immediate and significant reduction in such costs. Though the acquisition did not close, efforts to gain access to CPC continue – an opportunity still exists for the Company to move oil through this newly constructed export pipeline and thereby, obtain transportation cost savings.

Q What other efforts are being made to reduce costs and increase profitability?

A Targeted capital investments result in more efficient production and increased margins. This is why, over the course of the last five years, Hurricane has invested over $350 million in field and infrastructure development. The 55-megawatt power plant at Kumkol will be commissioned in the third quarter of 2003, which should also reduce costs. Ongoing improvements at Shymkent will mean more value added products and increased margins.

Q How well is Hurricane currently known by the investment community?

A Hurricane has made considerable progress over the last few years in being recognized by the international investment community but is still working towards expanding its shareholder base. The Company has a diverse shareholder base in Canada, the United States, Europe, Russia, and Asia. It also has a number of very large American, Canadian and European institutional shareholders.

Q Why should an investor be looking at Hurricane as an attractive investment?

A First of all, Hurricane has a portfolio of growth projects. Secondly, as the Kazakh economy becomes more competitive, further improvements in transportation costs are expected. Finally, the Company's share price remains substantially undervalued by the market because of the perceived risk of operating in Kazakhstan.

Q What do you mean by perceived risk?

A Investors are generally cautious before investing in a country that they are not familiar with; and a general knowledge of Kazakhstan and its economic progress is not widespread. As a result, many investors, because of their lack of familiarity, will not consider investing in a company that is operating exclusively in Kazakhstan – this is despite the positive economic and political conditions. Without a doubt, there is a discount factor associated with any developing economy, but this discount is exaggerated when there is a lack of familiarity with actual economic and political conditions.

Q **Will this lack of knowledge of the Kazakh environment continue to affect Hurricane's valuation?**

A Over time, there has been an improvement in the perception of Kazakhstan by the international investment community. Much of this has been due to the efforts of the government of Kazakhstan to maintain regular dialogue with the investment community. We believe this improvement should continue and, as a result, the discount to net asset value that we are currently experiencing should narrow over the coming years.

Q **Is the political situation in Kazakhstan stable?**

A Yes it is. His Excellency, the President of Kazakhstan, Mr. Nazarbayev, has been the President since the independence of Kazakhstan in 1991, and he has worked at transforming the economy from a communist system to a market based economy. This has resulted in significant advances in economic development.

Q **Hurricane operates exclusively in Kazakhstan, what does this mean?**

A Hurricane's performance will be closely associated with the continued progress of the country of Kazakhstan. The Company believes in the quality of the resources of the country, and the commitment of the government to a market economy. Hurricane's success is obviously closely related with the achievement of the policies of the Kazakh government. We have no reason to believe that progress will not continue. I should indicate that Kazakhstan was the first country in the former Soviet Union to be recognized as a market economy by both Europe and the United States. Kazakhstan has had the best performing economy in the former Soviet Union over the last few years. Kazakhstan has been praised for its fiscal policies by a number of international institutions. We believe Kazakhstan is on the right track.

Kazakhstan still does have a perception problem in the international community. The country image is not as good as we believe it rightfully deserves to be.

Q **Looking ahead, are there any challenges or real problems that you will have to worry about?**

A The challenge of operating in Kazakhstan is that it is still a young country in terms of free enterprise and market economy practices. It is common to experience some difficulties in the transitional phase. This means that a significant amount of time must be spent in dialogue with officials at various levels to obtain the approvals and support that is needed to carry out Hurricane's activities. This is part of Hurricane's expertise: dealing with an emerging market economy and successfully navigating through this environment.

Q **What are some of the milestones that Hurricane looks forward to achieving within the next three years?**

A Projecting the company three years down the road, in our historical area of operation, the South Turgai basin, we believe we will have achieved a further increase of production and reserves, and strengthened our leadership position as the most effective and efficient onshore oil operator in Kazakhstan. We will have also developed our downstream operations further, including having a larger network of retail stations. And in three years from now, we will have established another area of operation in Kazakhstan to support our growth beyond the next three years.

Q **What is your vision for Hurricane?**

A Hurricane's vision is to become a recognized leader in the international oil and gas industry within the former Soviet Union. To be a leader recognized by its ability to create value for shareholders, to operate in a professional manner, combining Western expertise with local talents and to be recognized in Kazakhstan as a model of corporate citizenship.

Kazakhstan

Bridging the East and the West, within Central Asia, lies a land of vast steppes and majestic mountains. Its arid grassy plains and desert north were once home to one of the world's great nomadic empires; and through its southern trade routes travelled goods, ideas and people.

Kazakhstan is strategically located, with the Caspian Sea to the west, borders with Russia to the north, China to the east and the countries of Turkmenistan, Uzbekistan and Kyrgyzstan to the south.

As a Republic, Kazakhstan has a President as the Head of State. The leader of the government is the Prime Minister. The Prime Minister, the individual Ministers and oblast Akims (regional governors) are all appointed by the President. The Government of Kazakhstan functions with an upper and lower house – the upper house being the Senate and the lower house being the Majhalis. Kazakhstan's next presidential elections are scheduled for 2006. The official state language of Kazakhstan's approximately 15 million people is Kazakh.

VAST NATURAL RESOURCES

Kazakhstan celebrated it's 10th anniversary in 2001 and it is roughly one quarter the size of Canada or half the size of the United States. Covering an area of 2.7 million km^2, it ranks as the world's ninth largest country and contains vast amounts of untapped mineral wealth and oil and gas reserves. All of which have drawn immense foreign investment interest to this young country which has the potential to become one of the world's largest oil producers. Kazakhstan has attracted over $18 billion in foreign investment and 89% of that has been in the oil and gas sector of the economy.

With existing investment contracts totaling $100 billion over the next 25 years and new discoveries yielding additional commitments, the country stands to continue its rapid development. Like its neighboring states, Kazakhstan is a new sovereign state, but is quickly taking its place in the world as a modern nation.

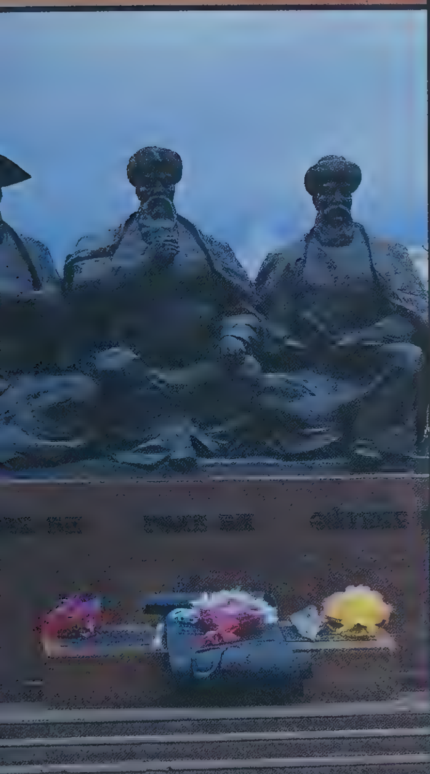
Kazakhstan's oil production has more than doubled in the past seven years. Oil production in 2003 is expected to increase to approximately 1.0 mmbopd compared to 0.9 mmbopd in 2002. Further oil production increases are expected, reaching upwards of 2.0 mmbopd by the year 2010.

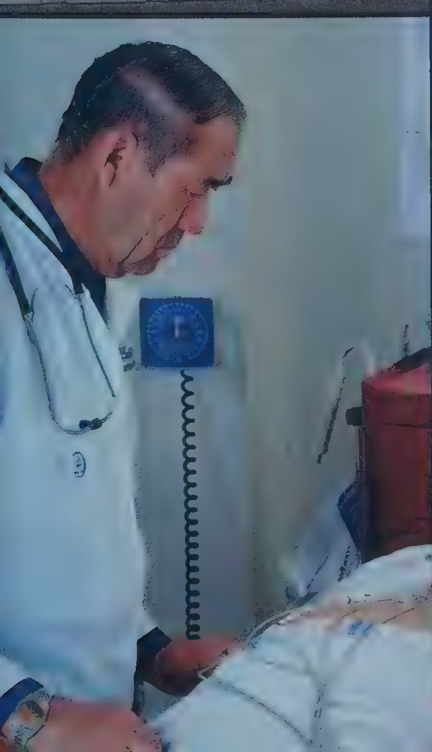
FROM A PLANNED TO A MARKET ECONOMY

For Kazakhstan, 2002 was a year marked by continued political stability with ongoing economic reform. Privatization and the establishment of a securities market are signs of a country that is moving towards a market economy. Success is evidenced by a sharp reduction of inflation, a budget surplus, a stable currency and a decreasing unemployment rate. These factors combined with the continued strength in international oil prices and the introduction of a new tax code have all come to positively affect the country. In 2002, Kazakhstan's credit rating was raised to investment grade status by Moody's.

The Government of Kazakhstan is kept abreast of the issues facing the investment community through regular dialogue with the Foreign Investor's Council (which meets directly with the President), the American Chamber of Commerce, the European Business Association of Kazakhstan, the Kazakhstan Petroleum Association and the Mining Association of Kazakhstan.



Hurricane is a major contributor to social and charitable organizations in Kazakhstan. Through a well-established network of community involvement, we have provided in excess of $32 million in sponsorship and charitable donations.

Kazakhstan has experienced impressive economic growth over the past three years, buoyed by increased oil exports, as well as by prudent fiscal policies and economic initiatives that were instituted in 1999. Economic indicators for 2002 continue to support this claim. Kazakhstan's GDP for 2002 grew by 9.5% which was roughly 2.5% higher than was forecasted, due to strong oil prices and rising volumes of metals and oil exports.

SOLID ECONOMIC PERFORMANCE

Kazakhstan had a foreign trade surplus of $2.2 billion, up from the $1.3 billion recorded in 2001. Kazakhstan's aggregate national debt stood at $3.7 billion as of the end of 2002 and inflation finished the year at 6.6%. The banking sector fared particularly well in 2002 with pension fund deposits growing by 48% year on year finishing the year at $1.7 billion. Bank deposits in general stood at $3.2 billion. Kazakhstan's rate of unemployment dropped from 10.4% in 2001 to 9.4% for 2002. The Tenge, Kazakhstan's national currency, traded in 2002 at an average rate of 153.5 Tenge to the U.S. dollar, worth fractionally less than in 2001 when it traded on average at 146.7 Tenge to the U. S. dollar.

WORLD RECOGNITION

Kazakhstan has achieved world recognition for its stand against terrorism and for becoming a non-nuclear power and is a signatory to the Treaty on Non-Proliferation of Nuclear Weapons. Kazakhstan has also offered, under specific terms, its defense infrastructure to the United States of America in its efforts to combat international terrorism. More than seventy embassies and representative offices of international organizations are accredited with Kazakhstan. Kazakhstan is a member of many international agencies including the UN, NATO Cooperation Council and financial institutions such as the IMF and the EBRD.

HURRICANE AND KAZAKHSTAN

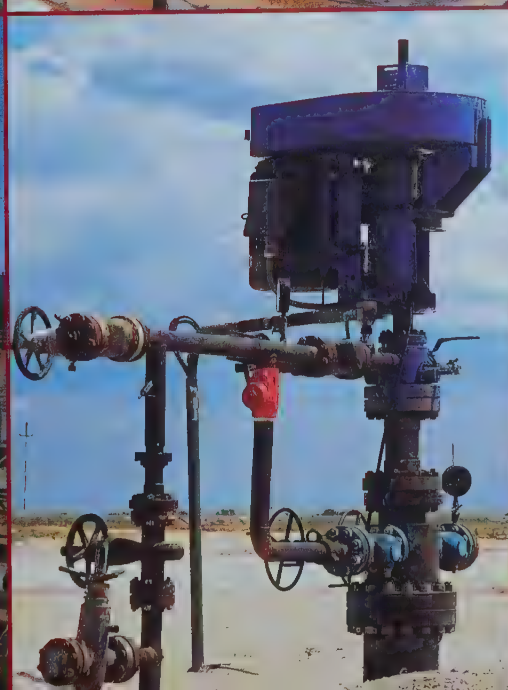
Hurricane is a major contributor to social and charitable organizations in Kazakhstan. Through a well-established network of community involvement, we have provided in excess of $32 million in sponsorship and charitable donations. We work closely with the local government authorities in identifying, developing and sponsoring educational initiatives, orphanages, medical institutions and sporting and cultural projects. We focus on our assistance to children, the elderly, war veterans, the disabled and underprivileged.

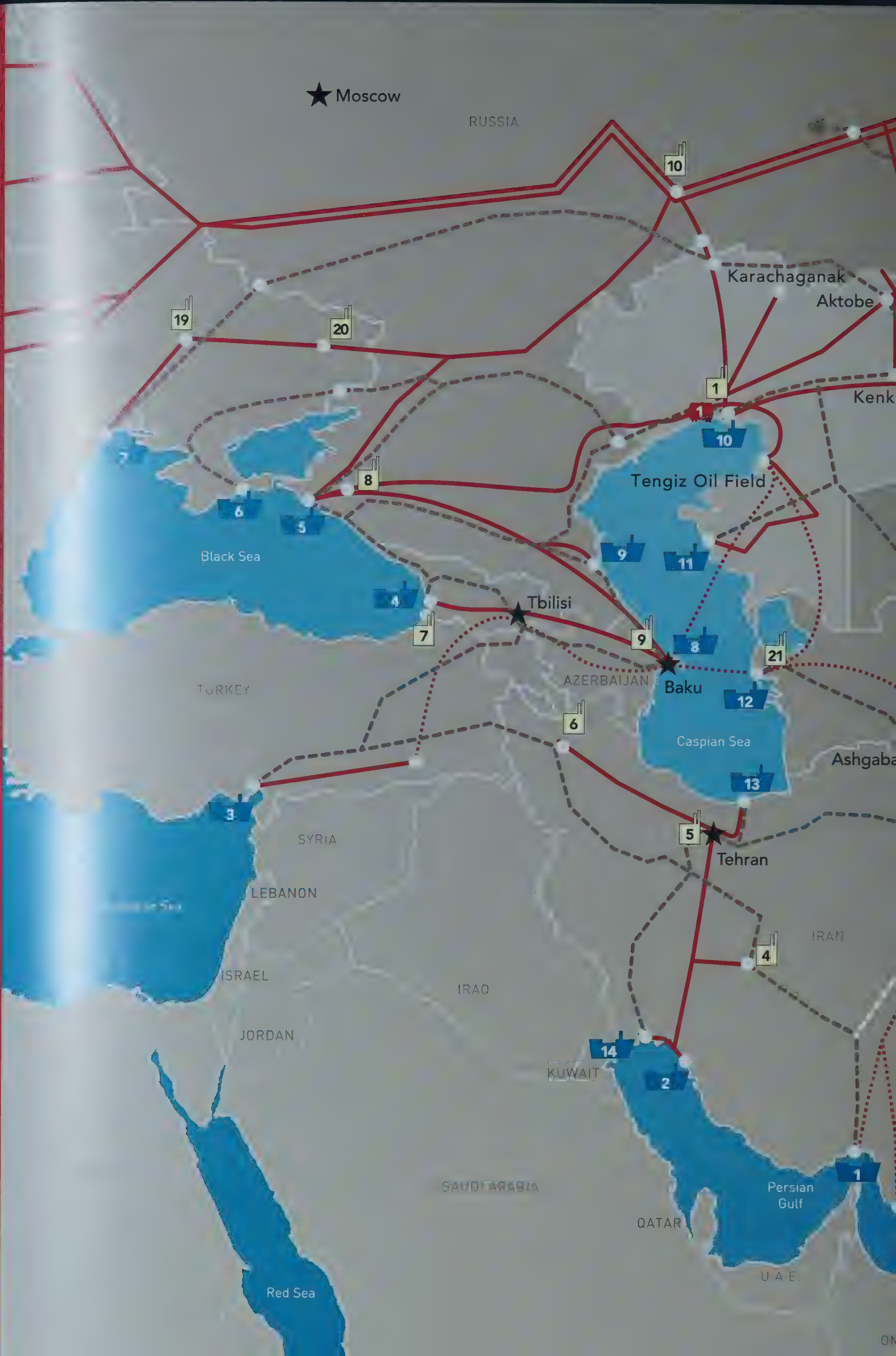
Hurricane organized and has financially supported the Arai Sun youth camp in Kazakhstan since 1997. This camp has been attended by thousands of children of employees as well as children living in the Kyzylorda oblast (location of HKM). HKM has also been the official sponsor of Kaisar FC, the local football team in Kyzylorda for six years. An illustration of our approach to philanthropic activities is a pilot pharmaceutical project launched in 2001, the first of its kind in the country. Elderly and sick people who would not otherwise be able to afford vital medicines, receive them free, or at a reduced cost, subsidized by Hurricane. By caring for needy people, we continue to do our part to support the President's declaration that 2002 was the year to focus on health issues.

Operations review









Moscow
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Karachaganak
Aktobe
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Baku
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TURKEY
AZERBAIJAN
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6
Caspian Sea
Ashgaba
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Tehran
SYRIA
LEBANON
IRAN
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IRAQ
JORDAN
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KUWAIT
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SAUDI ARABIA
Persian
Gulf
QATAR
U.A.E.
Red Sea

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Astana
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Atasu
Aralsk
Hurricane Operations
Dzhusaly
Karakoin
Kyzylorda
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5
15
UZBEKISTAN
3
Almaty
3
Bishkek
Shagyr
Tashkent
16
22
ENISTAN
17
Dushanbe
AFGHANISTAN
PAKISTAN
Arabian Sea
Existing Pipeline
Proposed Pipeline
Railroad
Refineries
1 Atyrau
2 Pavlodar
3 Shymkent
4 Esfahan
5 Tehran
6 Tabriz
7 Batumi
8 Krasnodar
9 Baku
10 Samara
11 Orsk
12 Omsk
13 Karamay
14 Urumqi
15 Dushanzi
16 Bukhara
17 Chardzhou
18 Odessa
19 Kremenchug
20 Lisichansk
21 Karshi
22 Fergana
Rail Terminals
1 Atyrau
2 Orsk
4 Pavlodar
5 Druzhba
Tanker Terminals
1 Bandar Abbas
3 Ceyhan
4 Supsa
5 Novorossiisk
6 Feodosia
7 Odessa
8 Baku
9 Mahachkala
10 Atyrau
11 Aktau
12 Turkmenbashi
13 Neka
14 Bander Khomeini

Our fields are located in the 80,000 km² South Turgai basin in south central Kazakhstan.

Operations overview

Hurricane is the second largest foreign oil producer in Kazakhstan.

All exploration and production operations are located in the 80,000 km^2 South Turgai basin in south central Kazakhstan. Hurricane has interests in eleven fields, seven of which are producing through permanent facilities, three of which are on test production for appraisal and one field awaiting finalization of its production license. Hurricane holds a 100% working interest in an exploration license covering 1,384 km^2. Over the past two years, two new fields, East Kumkol and North Nurali have been discovered in this area.

As of January 1, 2003, proved reserves are estimated at 356.2 mmbbls of oil and 20.0 bcf of natural gas with a present value of future pre-tax cash flows of over $1.6 billion using a 10% discount rate. Proved plus probable reserves were 518.3 mmbbls of oil and 27.1 bcf of gas, with a present value, discounted at 10%, of over $2.3 billion. During Hurricane's tenure in Kazakhstan our reserve portfolio has grown by 380.7 mmbbls in the proved plus probable category. In the same period 178.3 mmbbls have been produced.

Average daily oil production increased 35% to 135,842 bopd in 2002 from 100,877 bopd in 2001. Annual production over the past five years increased from 19.6 mmbbls to 49.6 mmbbls or 22% compounded annually.

Hurricane's refining and marketing activities involve the operation of the Shymkent refinery and the marketing of the refined products it produces. All crude oil from the Upstream operations that is not exported is sold to the Downstream operations for refining at Shymkent, which has a throughput capacity of approximately 140,00 bopd and is operating at an average of 53% of its capacity.

COMPETITIVE STRENGTHS

Hurricane enjoys the following principal competitive strengths:

Integrated operations. We are an integrated oil company in Kazakhstan with exploration, development, production, refining and marketing capabilities. We believe that these capabilities result in:

- a greater ability to maximize profit from our crude oil production in response to market demand by adjusting the balance between exports and domestic sales in Kazakhstan;
- a greater ability to enhance the quality of our products and the efficiency of our operations.

Optimal field characteristics. Our fields generally have productive zones at relatively shallow depths ranging from 760 to 1,830 metres. Our reservoirs have high porosity and high levels of permeability. Our reservoirs produce light, sweet crude at 37° to 44° API gravity with a sulphur content of less than 0.4%. These favourable field characteristics enable us to develop our fields and produce and refine our crude oil at low cost.

Pipeline and transportation connection between our oil fields and our refinery with sufficient capacity. The CPF and other production facilities have been refurbished to increase total fluid handling capacity from 190,000 bfpd to over 300,000 bfpd. We believe there is substantial unutilized capacity in the government controlled central pipeline. This combination of facilities and pipelines allows for production growth and the development of additional reserves without the need for new transportation infrastructure. In addition, the KAM pipeline, due to be commissioned at the end of the second quarter of 2003, will provide an alternative transportation route directly to one of the rail networks we use for exporting oil.

Excess refining capacity. The excess capacity at our Shymkent refinery provides significant flexibility in our choosing between selling crude oil or refined products as we increase our production and develop new reserves.

Market leadership in a major market. The Shymkent refinery is the only refinery located in the southern region of Kazakhstan, which is the most densely populated area of Kazakhstan. We have a network of sales, storage and distribution outlets in the principal centres of the region to market our refined products. We have achieved a leading market position in the Kazakhstani domestic market, which positions us well to capitalize on growth and any other improvements in the Kazakhstani economy.

Western technology and management techniques. We have applied Western technology and management techniques to modernize our operational infrastructure in Kazakhstan and maximize its efficiency. As an example, the use of western techniques in reservoir identification and management have been employed in our fields and have led to reserve increases and optimized production.

BUSINESS STRATEGY

The primary elements of our strategy are to:

Explore undeveloped properties. Beginning in January 2002, our exploration program has been primarily focused on accessing deeper stratigraphic prospects.

Capitalize on development opportunities. As of January 1, 2003, our proved undeveloped reserves are estimated to be 138.3 mmbbls. We intend to bring these proved undeveloped reserves into production in a timely, efficient and profitable manner.

Fully exploit our reserves. As of January 1, 2003, our proved, probable and possible reserves totaled 745.4 mmbbls. We intend to focus on the complete reserve base and continue to develop and bring more reserves into the proved category.

Increase our oil transportation alternatives in order to reduce transportation costs and increase export opportunities. In 2002, approximately 51% of crude oil sales went to export markets. Transportation to these markets remains our single largest cost of operations.

As many of the modes of transportation for crude oil and refined products are controlled by government entities and other third parties and few alternative modes currently exist, we are seeking ways in which to diversify transportation options in order to increase competition and thereby lower our costs. Additional transportation options to export markets would provide transportation capacity for increased exports. In this regard, we have undertaken various initiatives, including:

- constructing the KAM pipeline linking the KAM fields and our other fields to the railway at Dzhusaly;
- opening a number of new export routes, such as Turkmenbashi – Batumi; Atyrau – Samara; and Odessa;
- optimizing the use of existing export routes, such as Aktau – Batumi;
- continuing to increase the use of non-FCA sales (for which title to crude oil passes outside Kazakhstan);
- pursuing opportunities to improve our logistical infrastructure by upgrading loading and storage facilities and securing access to a railcar fleet to lower the cost of and ensure the availability of rail transportation; and
- creating a specialized transportation and trading team for both our Upstream and Downstream operations.

We also expect to actively pursue access to other pipelines, including the CPC pipeline.

Improve performance of the Shymkent refinery. We have undertaken, together with a consultant, a review of the refinery's operations to identify areas of improvement. We have been implementing relatively low-cost projects designed to increase product quality and production yields at the Shymkent refinery and to improve the refinery's product mix, such as:

- upgrading the refinery's secondary process capacity in order to reduce the output of lower margin products, such as mazut, and increasing the output of higher margin products, such as gasoline and jet fuel;
- refurbishing and recommissioning a vacuum gas oil distillation unit to reduce production of lower margin products;
- installing additional equipment to enhance product quality; and
- implementing new processes to increase energy efficiencies in order to reduce refining costs.

Reduce overhead and operating costs. We have eliminated the remaining overlap between the operations of our principal operating subsidiaries, HKM and HOP, by establishing our joint marketing team. In addition, in accordance with established western management practices, we intend to outsource many service activities that we currently perform to support our Upstream and Downstream operations and to divest non-core activities.

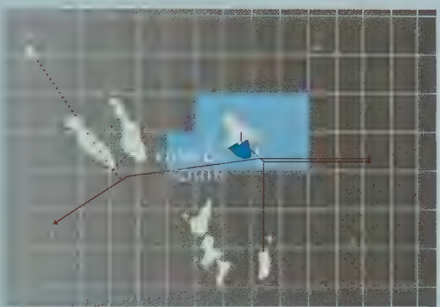
Selectively seek acquisition opportunities. We believe our integrated operations and leading position as a producer in the South Turgai basin will create opportunities for additional growth through selective acquisitions. As part of our strategy to increase reserves and production, we will pursue opportunities to acquire additional reserves from third parties. To date, our acquisition strategy has focused on acreage and assets, both producing and of exploration potential, within the vicinity of our current oil fields. We intend to pursue selective acquisitions throughout Kazakhstan.

Effectively exploit natural gas reserves. We have implemented a gas utilization program designed to reduce the flaring of gas produced from our fields and the consequential release of pollutants into the environment, and to help us meet our power needs. We expect this program to provide us with a more reliable and lower cost power source for our field operations, power for the Shymkent refinery through swaps, and the opportunity to sell power to third parties.

Upstream

PROPERTY REVIEW

Kumkol South



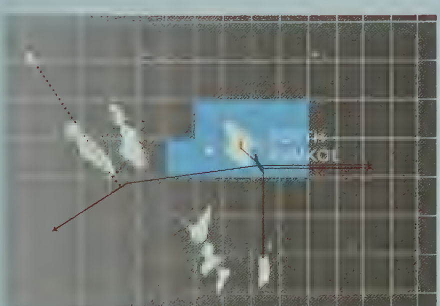
Working interest %	100
Operator	HKM
Acreage (acres)	18,604
2002 production (mbopd)	66.7
Producing wells (as of December 31, 2002)	166
Wells drilled in 2002	0
2003 target production (mbopd)	66.5

The Kumkol field was discovered in 1984 and has been producing since 1990. We are producing from eight horizons, in the Cretaceous and Jurassic formations, located at depths less than 1,400 metres. The crude oil is sweet and light, 42 degree API. The field is divided into two operating areas, Kumkol South and Kumkol North.

New free-water knock out facilities and a new water injection plant have enhanced the pressure support for the Kumkol reservoirs and has allowed us to increase our production. Facilities now handle over 300,000 bfpd. The construction of three new group processing stations, which relieve water handling at the CPF, were phased in through the year and have further enhanced production in the Kumkol fields.

Two additional free-water knock out facilities are to be constructed in 2003.

South Kumkol



Working interest %	100
Operator	HKM
Acreage (acres)	2,826
2002 production (mbopd)	22.[illegible]
Producing wells (as of December 31, 2002)	21
Wells drilled in 2002	3
2003 target production (mbopd)	25.2

The South Kumkol field was discovered in 1992 and has been producing since 1997. Three new wells were drilled and completed in 2002. With the addition of water injection facilities and the optimization of artificial lift pumps, production has increased and will plateau at 25 mbopd in 2003.

The first stage of development for the KAM fields is well underway, we will have continued development in 2003.

Kyzylkiya

Working interest %	100
Operator	HKM
Acreage (acres)	59,476
2002 production (mbopd)	6.9
Producing wells (as of December 31, 2002)	12
Wells drilled in 2002	1
2003 target production (mbopd)	10.3

The Kyzylkiya field was discovered in 1988. Production, which commenced in August 2000, is from the Cretaceous and Jurassic formations at depths less than 1,600 metres. 3D seismic has been acquired over the entire field. Production facilities, an all-weather road and other infrastructure projects have been completed creating all-weather access to the Kumkol field located approximately 55 km to the east.

The KAM fields will be connected to Kumkol and to a rail loading facility to the south west at Dzhusaly by a 177 km, 16-inch oil pipeline due for commissioning at the end of the second quarter of 2003. This facility, which includes pumping stations and a rail loading system, will initially be capable of transporting 140,000 bopd.

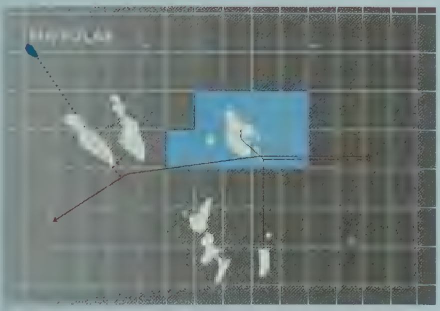
Aryskum

Working interest %	100
Operator	HKM
Acreage (acres)	41,634
2002 production (mbopd)	4.3
Producing wells (as of December 31, 2002)	10
Wells drilled in 2002	3
2003 target production (mbopd)	10.8

The Aryskum field was discovered in 1988 and has been on test production over the past two years from horizons at 1,200 metres. Concerns over well deliverability were addressed in 2002 with the recompletion of wells and the installation of additional surface facilities which have led to dramatic increases in individual well rates. Year-end production reached 6,500 bopd. Aryskum will be tied into the new 16-inch oil pipeline to Dzhusaly. 3D seismic has been acquired over the entire field.

The KAM pipeline is scheduled for commissioning at the end of the second quarter of 2003.

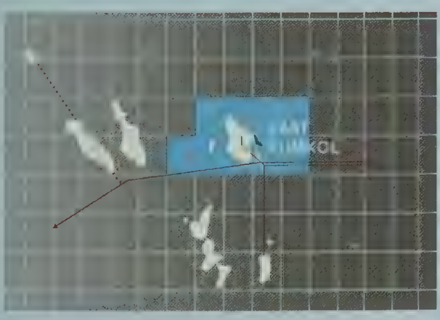
Maibulak



Working interest %	100
Operator	HKM
Acreage (acres)	10,263
2002 production (mbopd)	0.8
Producing wells (as of December 31, 2002)	8
Wells drilled in 2002	1
2003 target production (mbopd)	1.4

The Maibulak field was discovered in 1988 with four productive zones in the Jurassic formation identified at depths of less than 1,400 metres. Test production crude has been trucked along the new road to Aryskum, some 40 km south east of Maibulak. 3D seismic surveys have been conducted over the entire field. Well tests and core studies have been completed and integrated into the development plan. Plans are underway for water injection facilities required to maintain reservoir pressure.

East Kumkol

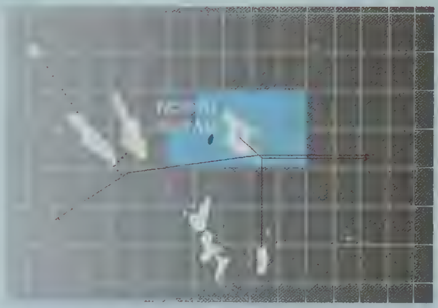


Working interest %	To be determined
Operator	HKM
Acreage (acres)	8,151
2002 production (mbopd)	0.6
Producing wells (as of December 31, 2002)	5
Wells drilled in 2002	2
2003 target production (mbopd)	2.7

In 2002, East Kumkol was in appraisal testing. A 3D seismic survey was acquired over the entire field and it is evident that the field extends into the Kumkol North (Turgai Petroleum) license area. Consequently, Hurricane and Turgai Petroleum are now developing a joint venture agreement, determining ownership percentages, preparing the joint development plan and production agreements for approval by the authorities. The field is currently not producing pending finalization of the development and production plan.

The discovery of North Nurali proved that the deep stratigraphic concept works in the South Turgai basin.

North Nurali



Working interest %	100
Operator	HKM
Producing wells (as of December 31, 2002)	2
Wells drilled in 2002*	2
2003 target production (mbopd)	0.3

Discovered in 2002, test rates from six zones at depths of 1,700 metres were up to 500 bopd. The reservoir is significantly different from others in the same area and exhibits lower permeabilities. It is our intention to retest the wells in 2003 after fracture stimulation. In addition, three delineation appraisal wells will be drilled to assess field reserves. Negotiations are underway for the award of the production license and all necessary government approvals.

Kumkol North

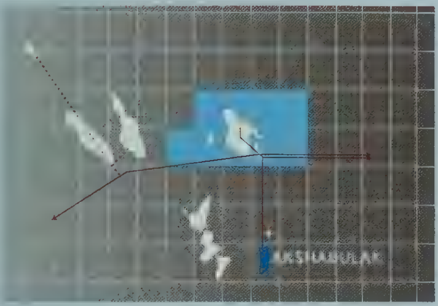
Working interest %	50
Operator	Turgai Petroleum
Acreage (acres)*	40,655
2002 production (mbopd)*	45.6
Producing wells (as of December 31, 2002)*	198
Wells drilled in 2002*	54
2003 target production (mbopd)*	59.4

*Items are at 100% or gross working interest

Turgai Petroleum operates Kumkol North, which is owned equally between Hurricane and LUKoil Overseas Ltd. Production and ancillary support facilities are provided by HKM as the operator of Kumkol South on a fee basis. The crude is commingled after a metering station at the field's border, and then processed at the CPF. An additional 33 wells will be drilled in 2003 as we fully develop the reservoir.

A gas pipeline, anticipated to be constructed from the Akshabulak field, will provide natural gas to the Kyzylorda region.

Akshabulak



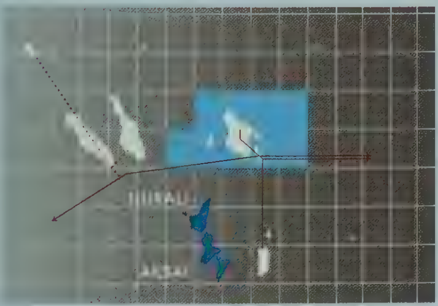
Working interest %	50
Operator	Kazgermunai
Acreage (acres)*	64,118
2002 production (mbopd)*	20.7
Producing wells (as of December 31, 2002)*	15
Wells drilled in 2002*	3
2003 target production (mbopd)*	35.6

*Items are at 100% or gross working interest

The Akshabulak field was discovered in 1988 and production began in 1997. Production is currently being transported by pipeline to the Kumkol field where it ties into the lateral pipeline. This in turn connects to the central pipeline that delivers oil to the Shymkent refinery. Full development of the field is still to be accomplished and was delayed in 2002 by the German joint venture partners, pending assurances from the government of Kazakhstan on marketing and transportation issues. Hurricane is engaged in trying to resolve certain disputes with the joint venture partners regarding the ongoing management and operation of the joint venture.

FIELDS UNDER APPRAISAL

Nurali and Aksai



Working interest %	50
Operator	Kazgermunai
Acreage (acres)*	164,795
2002 production (mbopd)*	1.0
Producing wells (as of December 31, 2002)*	7
Wells drilled in 2002*	1
2003 target production (mbopd)*	2.2

*Items are at 100% or gross working interest

The complex geology of the Nurali and Aksai fields has led to a new assessment of the appraisal and development plan. 3D seismic has been acquired and interpreted. In 2003, it is anticipated that an early oil scheme will be installed leading to production increases of 7,000 bopd by the end of 2004.

From an environmental perspective, Hurricane is very focused and is currently constructing a 55 megawatt power plant at Kumkol that will reduce gas emissions.

Exploration – 260 D1 License

Hurricane holds a 1,384 km^2 exploration license (License 260 D1) that surrounds the Kumkol field. This license has been extended to June 2005 by which time Hurricane will have completely assessed the prospectivity of the license. Four wells were drilled in 2002 on separate prospects, two of which discovered the North Nurali field, situated 15 kms west of Kumkol.

The leads in the North Nurali area are just two of the numerous leads that have been identified in this license area. The wells identified deeper target sands in stratigraphic traps, previously unexplored in the basin. Well depths for all the leads range from 2,300 to 4,000 metres. The two North Nurali wells that were drilled have validated the concept of producible hydrocarbons from deep stratigraphic traps.

Two additional exploration leads were evaluated in 2002 which were dry, East Karavanchi and West Kumkol. These wells have, however, provided essential information on the issue of migration of oil in the western areas of the license. Extensive exploration and appraisal work will continue in 2003 with the acquisition of 3D seismic over the North Nurali field, three North Nurali appraisal wells and the drilling of at least another three wells on separate leads.

GAS UTILIZATION

Hurricane is constructing a 55 megawatt power plant in the Kumkol field to use associated produced gas from the Kumkol South, South Kumkol and Kumkol North fields. Total cost of the plant is estimated to be $35 million which will be shared with Turgai Petroleum. The plant will provide stable electricity for field operations, increasingly important as there is more reliance on artificial lift pumps, and will provide excess electricity for sale to Kyzylorda city and a credit for Shymkent refinery usage. The plant should be commissioned during the third quarter of 2003. In addition, as a joint venture partner in the Akshabulak fields, Hurricane is participating in a project to provide natural gas to the Kyzylorda region.

HEALTH, SAFETY AND ENVIRONMENT

In 2002, Hurricane continued its commitment to and focus on improving safety. Safety management and supervisory training was conducted. Regular work site and safety management meetings were held at all employee levels. Thinking about safety and promoting safety awareness was encouraged for all employees at all work locations.

The lost time injury rate was reduced from two per million man hours in 2001 to one per million man hours in 2002. No lost time accidents occurred in the oil fields. Reported incidents in 2002 were down dramatically to 20 from the 39 recorded in 2001. These were minor injuries, near misses or non lost time accidents.

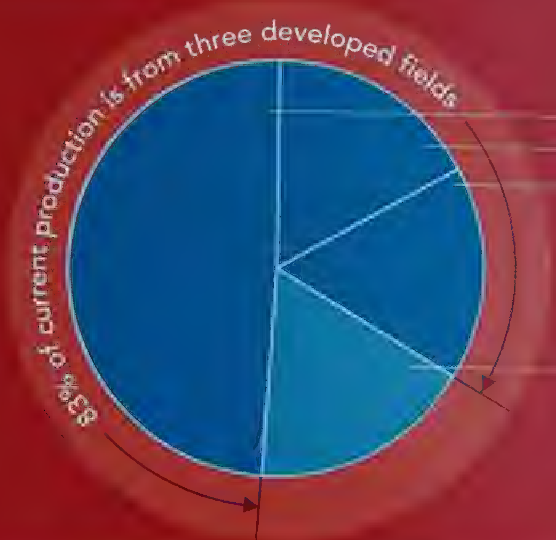
Safety training continues, especially in the areas of driver training, operator safety, fire protection and chemical handling. HKM continues to improve its program of monitoring and collecting data from contractors to promote improved contractor safety performance and programs.

From an environmental perspective, the 55 megawatt power plant at Kumkol will reduce gas emissions. In addition, we are implementing various capital projects to further protect the environment. These include projects to reduce air, water and soil contamination.

HKM maintains a close relationship with all local authorities to ensure continuing compliance with Republic of Kazakhstan's laws and regulations.

Our undeveloped fields will gain greater prominence in the future as they are brought on production.

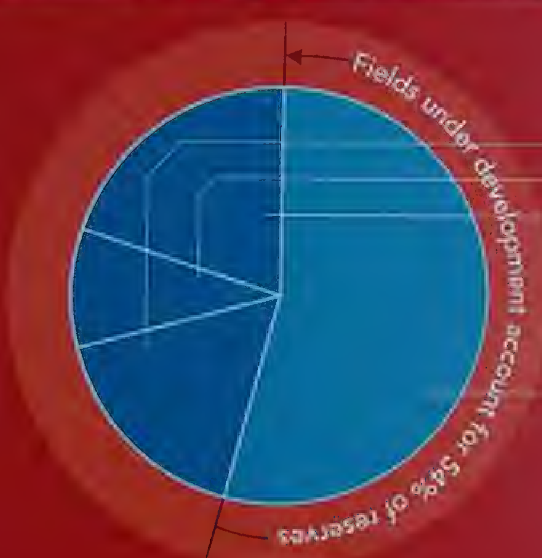
83% of current production is from the "Kumkol" fields.



DAILY PRODUCTION (average for 2002)

		mbopd
Kumkol South	49.1%	66.7
Kumkol North	16.8%	22.8
South Kumkol	16.7%	22.7
Akshabulak	7.6%	10.4
Kyzylkiya	5.1%	7.0
Aryskum	3.2%	4.3
Maibulak	0.6%	0.8
East Kumkol	0.5%	0.6
Nurali	0.3%	0.4
Aksai	0.1%	0.1
North Nurali	0.0%	0.0
	100.0%	135.8

54% of reserves are in fields at the beginning of their development.



RESERVES (as of January 1, 2003)

		mmbbls
Kumkol South	16.7%	86.5
South Kumkol	9.1%	47.4
Kumkol North	20.0%	103.8
Akshabulak	25.2%	130.4
Kyzylkiya	8.2%	42.3
Aryskum	9.9%	51.3
Maibulak	3.5%	18.1
East Kumkol	2.3%	12.1
Nurali	2.7%	13.9
North Nurali	1.6%	8.5
Aksai	0.8%	4.0
Total	100.0%	518.3

Reserves

RESERVES RECONCILIATION BY FIELD

Proved plus probable *(millions of barrels)*

	Kumkol South	Kumkol North	South Kumkol	East Kumkol	North Nurali	Kyzylkiya	Aryskum	Maibulak	Akshabulak	Nurali	Aksai	Total
Reserves as of Jan 1, 2002	134.8	111.2	42.5	10.8	0.0	37.7	28.4	20.8	108.1	10.5	7.5	512.3
Revisions	(23.9)	0.8	13.2	1.5	8.5	7.1	24.5	(2.4)	26.3	3.5	(3.5)	55.6
Production	(24.4)	(8.3)	(8.3)	(0.2)	0.0	(2.5)	(1.6)	(0.3)	(3.9)	(0.1)	0.0	(49.6)
Reserves as of Jan 1, 2003	**86.5**	**103.8**	**47.4**	**12.1**	**8.5**	**42.3**	**51.3**	**18.1**	**130.4**	**13.9**	**4.0**	**518.3**

RESERVE EVALUATION

Summary of remaining crude oil reserves and present values.

Escalating Price Assumptions

as at January 1, 2003. McDaniel & Associates Consultants Ltd.

Total Hurricane Interest by Field

	Reserves *(mmbbls)*				Present Worth Value – Unrisked *(U.S. thousands of dollars at 10% discount before income tax)*			
	Proved	%	Proved + Probable	%	Proved	%	Proved + Probable	%
Kumkol South	71.6	20.1%	86.5	16.7%	356,630	21.7%	432,883	18.3%
Kumkol North	76.3	21.4%	103.8	20.0%	374,049	22.8%	517,339	21.9%
South Kumkol	39.6	11.1%	47.4	9.1%	216,097	13.2%	248,782	10.5%
East Kumkol	7.9	2.2%	12.1	2.3%	30,023	1.8%	43,662	1.9%
North Nurali	1.3	0.4%	8.5	1.6%	3,019	0.2%	23,083	1.0%
Kyzylkiya	27.6	7.8%	42.3	8.2%	120,239	7.3%	179,240	7.6%
Aryskum	27.8	7.8%	51.3	9.9%	124,842	7.6%	245,819	10.4%
Maibulak	5.7	1.6%	18.1	3.5%	4,044	0.2%	55,379	2.3%
Akshabulak	90.2	25.3%	130.4	25.2%	401,251	24.4%	584,173	24.7%
Nurali	7.1	2.0%	13.9	2.7%	11,754	0.7%	26,232	1.1%
Aksai	1.1	0.3%	4.0	0.8%	1,618	0.1%	7,262	0.3%
Total	**356.2**	**100.0%**	**518.3**	**100.0%**	**1,643,566**	**100.0%**	**2,363,854**	**100.0%**

Summary of remaining crude oil reserves and present values.

Escalating Price Assumptions

as at January 1, 2003. McDaniel & Associates Consultants Ltd.

	Crude Oil Reserves *(mmbbls)*		Natural Gas Reserves *(bcf)*		Present Worth Value – Unrisked *(U.S. thousands of dollars)*				
	Property Gross	Company Gross*	Property Gross	Company Gross*	0.0%	10.0%	12.5%	15.0%	20.0%
Proved producing	321.2	217.9	0	0	1,567,466	1,142,810	1,075,277	1,016,961	921,270
Proved undeveloped	211.8	138.3	28.9	20.3	869,788	500,756	443,612	395,158	318,133
Total proved	533.0	356.2	28.9	20.3	2,437,254	1,643,566	1,518,889	1,412,119	1,239,403
Probable	240.4	162.1	11.5	6.8	1,372,593	720,288	629,915	555,614	441,985
Proved plus probable	773.4	518.3	40.4	27.1	3,809,847	2,363,854	2,148,804	1,967,733	1,681,388
Possible	318.9	227.1							
Proved plus probable plus possible	1,092.3	745.4							

* Company Gross reserves are before royalties.

Constant Price Assumptions

as at January 1, 2003. McDaniel & Associates Consultants Ltd.

Total Hurricane Interest by Field

	Reserves (mmbbls)				Present Worth Value – Unrisked (U.S. thousands of dollars at 10% discount before income tax)			
	Proved	%	Proved + Probable	%	Proved	%	Proved + Probable	%
Kumkol South	71.6	20.1%	86.5	16.7%	570,617	23.1%	676,337	19.6%
Kumkol North	76.3	21.4%	103.8	20.0%	533,277	21.6%	728,840	21.1%
South Kumkol	39.6	11.1%	47.4	9.1%	319,476	12.9%	362,563	10.5%
East Kumkol	7.9	2.2%	12.1	2.3%	50,952	2.1%	71,727	2.1%
North Nurali	1.3	0.4%	8.5	1.6%	6,640	0.3%	38,496	1.1%
Kyzylkiya	27.6	7.8%	42.3	8.2%	181,032	7.3%	265,374	7.7%
Aryskum	27.8	7.8%	51.3	9.9%	188,583	7.6%	355,563	10.3%
Maibulak	5.7	1.6%	18.1	3.5%	18,119	0.7%	90,329	2.6%
Akshabulak	90.2	25.3%	130.4	25.2%	570,026	23.1%	793,033	23.0%
Nurali	7.1	2.0%	13.9	2.7%	26,299	1.1%	52,634	1.5%
Aksai	1.1	0.3%	4.0	0.8%	4,767	0.2%	15,970	0.5%
Total	**356.2**	**100.0%**	**518.3**	**100.0%**	**2,469,788**	**100.0%**	**3,450,866**	**100.0%**

Summary of remaining crude oil reserves and present values.

Constant Price Assumptions

as at January 1, 2003. McDaniel & Associates Consultants Ltd.

	Crude Oil Reserves (mmbbls)		Natural Gas Reserves (bcf)		Present Worth Value – Unrisked (U.S. thousands of dollars)				
	Property Gross	Company Gross*	Property Gross	Company Gross*	0.0%	10.0%	12.5%	15.0%	20.0%
Proved producing	321.2	217.9	0	0	2,266,199	1,686,101	1,589,711	1,505,442	1,365,053
Proved undeveloped	211.8	138.3	28.9	20.3	1,273,648	783,687	705,645	638,787	530,939
Total proved	533.0	356.2	28.9	20.3	3,539,847	2,469,788	2,295,356	2,144,299	1,895,992
Probable	240.4	162.1	11.5	6.8	1,737,649	981,078	871,143	779,350	635,978
Proved plus probable	773.4	518.3	40.4	27.1	5,277,496	3,450,866	3,166,499	2,923,579	2,531,970
Possible	318.9	227.1							
Proved plus probable plus possible	1,092.3	745.4							

* Company Gross reserves are before royalties.

Downstream

ACCOMPLISHMENTS

- significantly reduced mazut yield at the Shymkent refinery.
- improved transportation logistics and infrastructure.
- increased export volumes and the number of export routes.
- sold first cargoes of oil directly to Mediterranean refineries.
- developed sufficient capacity in loading system to handle future production growth.

BACKGROUND AND ORGANIZATION

Hurricane seeks to maximize the value of operations by balancing opportunities to export crude oil with processing crude oil at our Shymkent refinery, depending on domestic market conditions and international crude oil prices.

Crude oil production from our producing fields continues to be the primary source of crude oil for the Shymkent refinery. The refined products produced include mazut, gasoline, diesel, LPG's and jet fuel, primarily for the Kazakhstani domestic market. The refinery, which is the newest in Kazakhstan, is strategically located in the southern part of the country. Other downstream components include a marketing and trading group and a network of distribution centres along with several retail gasoline outlets.

Within the downstream organization the marketing and trading group is accountable for maximizing the value of our crude oil production through increasing the number of options for exporting oil, reducing the cost of transporting oil to export markets, executing market driven strategies for petroleum products, and optimizing the performance of the Shymkent refinery.

During 2002 the marketing and trading group was further developed and the level of professionalism enhanced. The recruitment of additional experienced senior trading, logistics, refining and marketing specialists has improved our ability to take a more pro-active approach to market opportunities and challenges. In addition, the creation of a trading floor brought together all the different disciplines involved in crude oil and refined product trading and provided a more coordinated approach. The trading floor has representatives from Marketing and Trading as well as Logistics and Finance.

Crude Oil Logistics

Crude oil exports increased in 2002 by 41.5% to 25.9 mmbbls compared to 18.3 mmbbls in 2001. Crude oil exports handled at our Tekesu rail loading station increased from approximately 31,000 bopd at the beginning of 2001 to a high of 89,000 bopd late in 2002. Experience during 2002 showed that there is a practical and repeatable capacity to load 139,400 bopd at Tekesu. This level of capacity, together with the KAM pipeline due to be on stream in 2003, proves that there is sufficient capacity to handle future production growth.

During 2002 crude oil was exported directly to a variety of destinations including Cost, Insurance and Freight ("CIF") sales to Italian refineries, Free On Board ("FOB") sales at the ports of Batumi, Odessa and Novorissisk on the Black Sea and Delivered At Frontier ("DAF") to China. Transportation costs remain the primary target of management. In 2002 a continuing increase in rail tariffs inside Kazakhstan, combined with a deterioration in the world shipping market, has resulted in an increase in transportation costs.

In 2003, the focus will continue to be on a reduction of transportation costs and diversification of routes. Our experience in 2002 has shown that having a variety of routes available minimizes the impact of events such as port closures caused by inclement weather or operational problems. Transportation cost reductions will be achieved through the start up of the KAM pipeline and continued negotiations with the government of Kazakhstan and its neighbours to secure the most reliable and cost effective routes to market.

Access to railcars continues to be a priority to support the development of logistic options. We plan to bring our fleet of rented railcars up to 3,000 by mid 2003. This will provide additional security of transportation and, together with the available state owned railcar fleet, will be adequate to handle increased production volumes.


HURRICANE

Crude Oil Trading

The Brent crude oil price remained volatile throughout 2002. The average of the day's dated Brent price started the year at \$20.28/bbl and finished the year at \$30.38/bbl with a high during the year of \$31.85/bbl and a low of \$18.02/bbl. This volatility was driven in part by concerns over the Iraq situation, declining U.S. crude oil inventories and more recently by the reduction of production in Venezuela. Additionally, sweet/sour crude differentials as indicated by the Tengiz quotation, deteriorated during the first half of 2002 before showing some level of recovery during the last six months of the year. Kumkol CIF Mediterranean continued to trade at a premium to Brent and Tengiz CIF Mediterranean.

In light of the crude price volatility we adopted a prudent approach in hedging a portion of our production.

During the year, trading activity developed further as the first cargoes of oil were sold directly to Mediterranean refineries. In 2002 crude exports under terms other than Free Carrier ("FCA") accounted for a greater percentage of business allowing greater transparency of logistic costs and greater flexibility in operations when needed. Nevertheless, as transportation costs in Kazakhstan increased, some of the benefit of higher crude oil prices eroded. During the year, joint marketing of Turgai Petroleum's crude oil production was successfully carried out, allowing greater control over the final destination and price.

For 2003, efforts will continue with regional governments to develop new and existing routes with reduced transportation costs and to maintain operational flexibility in terms of both routes and customers.

Refinery operations and refined product sector

During the year our refinery, located in Shymkent, was re-named Hurricane Oil Products to better reflect the integrated nature of Hurricane's operations.

The emphasis at the refinery in 2002 has been to improve the efficiency of the refinery by upgrading the level of high value products manufactured such as kerosene, diesel and gasoline. Work completed in 2002 led to a substantial reduction in the percentage of mazut produced. Mazut is a low value product and is in sufficient supply in the domestic market. Mazut yield in 2002 averaged about 36% versus 40% in 2001. At the end of 2002, mazut yield was 36% versus 43% at the end of 2001.

During the summer of 2002, mazut yield was 31%. The mazut yield deteriorated over the fourth quarter as the visbreaker unit was shut down for repairs and because the production of winter diesel leads to higher mazut yields.

The Profit Improvement Program has nearly eliminated flaring and improved heater performance and fuel utilization. Further energy improvements will be implemented and it is anticipated that this will lead to further profitability improvements.

During 2002, work commenced on the Vacuum Distillation Unit ("VDU"). This project is expected to be completed by the third quarter of 2003. The VDU will permit the Shymkent refinery to produce Vacuum Gasoil ("VGO"). VGO is a high value product and is a highly sought after product by refineries with catalytic cracking units where the VGO can be converted into gasoline and diesel. This will substantially improve the economic yield of the Shymkent refinery by further reducing the mazut yield.

Product prices were lower in early 2002 in part as a result of excess supplies being imported from Russia. Prices recovered steadily during the year and had recovered to 2001 levels by year-end.

2003 OBJECTIVES

The main objectives for 2003 are as follows:

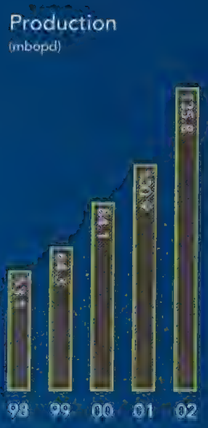
Marketing, Trading and Logistics – lower transportation costs through;

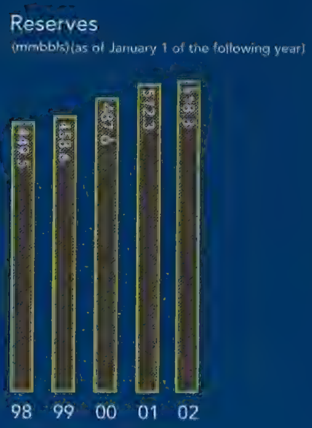
- transporting crude via the KAM pipeline.
- pursuing opportunities to transport crude via the CPC export pipeline.
- further development of non-FCA sales.
- improving infrastructure (railcars, loading facilities).
- completing the Druzhba rail terminal to facilitate increased oil movements to China.
- continuing to develop joint marketing arrangements with the other producers in the South Turgai basin.

Refining;

- attain further cost efficiencies.
- decrease mazut yield.
- commission the VDU unit.

Management's discussion and analysis





The following Management's Discussion and Analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements of the Corporation and notes relating thereto that are included elsewhere in this report. Our financial statements have been prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP. For a discussion of the most significant differences between Canadian GAAP and U.S. GAAP please refer to Note 24 in our consolidated financial statements. This discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements.

In our Management's Discussion and Analysis we use certain terms, which are specific to the oil and gas industry, including "netback" and "cash flow". These are non-GAAP terms and are defined within our document. Cash flow is defined as cash generated from operating activities before changes in non-cash working capital.

Except as otherwise required by the context, reference in this Management's Discussion and Analysis to "our", "we" or "us" refer to the combined business of Hurricane Hydrocarbons Ltd. and all of its subsidiaries and joint ventures.

All numbers are in U.S. Dollars unless otherwise indicated.

OVERVIEW

We are an integrated oil company that owns and operates oil and gas production and a refinery in Kazakhstan. We use the term "Upstream" to refer to the exploration for and production of oil and gas from our licenses in the South Turgai basin, Kazakhstan. We use the term "Downstream" to refer to the operations of our refinery located in Shymkent, Kazakhstan and the marketing of refined products and the management of the marketing of crude oil for Upstream.

We acquired the Shymkent refinery, through our acquisition of HOP (then known as ShNOS), in March 2000, and assumed a greater role in the management of the Kazgermunai joint venture at the end of November 2000. Accordingly, our 2002 and 2001 results reflect the inclusion of the Shymkent refinery and Kazgermunai for a full year, as compared to nine months (in the case of the Shymkent refinery) and one month (in the case of Kazgermunai) in 2000.

We have achieved record average production levels of 135,842 barrels of oil per day ("bopd") for the year and near record financial results. The year 2002 saw a significant increase in non-Free Carrier ("non-FCA") sales as compared to 2001. At the end of 2002 approximately 1.6 million barrels of non-FCA sales were incomplete and hence, included in inventory. The effect of this was to cause an estimated $13.0 million of net income to be deferred into 2003.

We achieved record production of 135,842 bopd for the year and near record financial results.

Production

We derive our revenues principally from the sale of crude oil and refined products and to a lesser extent from refining crude oil on behalf of third parties, for which we receive processing fees, and production and ancillary support facilities provided to our joint venture Turgai Petroleum on a fee basis. Our results are dependent on the levels of our oil production and on prevailing prices for such production. Prices for oil are subject to large fluctuations in response to a variety of factors beyond our control.

During the year ended December 31, 2002, our production volumes totalled 49.6 million barrels or an average of 135,842 bopd, representing a 35% increase over production volumes of 100,877 bopd or 36.8 million barrels for the year ended December 31, 2001. Record export sales combined with enhanced performance from all fields led to these increases. Our production volumes increased by 20% in 2001 over 2000 production volumes of 30.69 million barrels or 84,090 bopd.

(bopd)	**2002**	2001	[illegible]
Field			
Kumkol South	**66,726**	59,585	[illegible]
Kumkol North	**22,810**	15,876	[illegible]
South Kumkol	**22,728**	12,968	[illegible]
Kyzylkiya	**6,941**	2,973	[illegible]
Aryskum	**4,330**	58	[illegible]
Maibulak	**824**	750	[illegible]
East Kumkol	**634**	–	
Kazgermunai Fields	**10,849**	8,667	–
Total	**135,842**	100,877	[illegible]

In 2002, production increases were recorded in all fields. Major contributions came from the optimization of individual well rates in South Kumkol and Kumkol South by the installation of artificial lift and pump optimization, the continued development drilling in Kumkol North and the enhanced performance of the South Kumkol field. Two new Kumkol South free water knockout facilities, commissioned in early October, relieve water handling issues at the CPF, thereby increasing processing capacity. We currently have eight service rigs in operation throughout the producing fields that are contributing to the enhancement of daily production. These rigs are conducting artificial lift pump replacements and installations, as well as zonal isolation, recompletions and workovers.

The program of further development and production enhancement of the Akshabulak field, operated by Kazgermunai, required the installation of a new process facility in 2002. The purchase order for this new facility is being delayed by our joint venture partners, pending assurances from the government of Kazakhstan on marketing and transportation issues.

Overall, we participated in the drilling of 72 new wells during 2002, including wells drilled by our joint ventures.

Sales

During 2002, 49% of crude oil export sales were Free Carrier ("FCA") sales to third parties within Kazakhstan, normally at the rail terminal at Tekesu, adjacent to the Shymkent refinery. The price achieved for these export sales is shown net of a differential to the prevailing Brent price at the time of the sale. The differential reflects a number of factors, the most significant of which relates to rail transportation costs. Title to the crude oil passes to the buyer at the point of loading the crude into rail cars. In the tables included in our Management's Discussion and Analysis, these sales are shown as "Crude sales sold FCA".

In addition, beginning in 2001 we made our first direct sale from a Black Sea port (Batumi) on FOB ("Free On Board") terms. Under these types of sales, we arrange all transportation to the port and assume the obligations for this transportation. The sale price reflects the Brent price plus or minus a differential to the Black Sea port at the time of sale. With this type of sale, title to the crude does not pass to the buyer until the crude is loaded into an oil tanker in the respective Black Sea port. Sales contracts are also being concluded on Delivered At Frontier ("DAF") terms, where title to the crude oil passes to the buyer at the border, Cost, Insurance and Freight ("CIF") and Carriage Paid To ("CPT") terms, where title to the crude oil passes at the final destination. In the tables following, these sales are shown as "Crude sales sold non-FCA".

Revenue is recognized at the time title passes. In the case of FCA sales, we record revenue based on a provisional Brent price at the time of delivery at Tekesu, then mark to market at month end to reflect increases or decreases in prevailing Brent prices, and adjust the final price if necessary, upon delivery to the final destination by reference to the bill of lading date and the contract terms.

During the year ended December 31, 2002, 39% of crude oil export sales represented "Crude sales sold non-FCA", including exports made CIF to Italian refineries, FOB Batumi, FOB Odessa via Atyrau-Samara, CPT Novorossiisk and DAF China and Ukraine, albeit the Chinese volumes were relatively small. The remaining 12% of sales were export sales made by our joint venture Kazgermunai.

The FCA differential or, in the case of non-FCA sales, the cost of transportation, represents our largest operating cost. As we continue to increase non-FCA sales in 2003, we anticipate that crude oil revenue and transportation costs will increase significantly, even in the event that prices and volumes remain consistent with prior periods. The move to non-FCA sales is also expected to have a detrimental effect on our working capital position both through the need to prepay transportation costs and the fact that oil is held in inventory for longer periods of time. We are increasing our use of non-FCA sales as we are able to contract directly for transportation related services, thereby increasing our understanding and control of our transportation expenses, ultimately leading to improved netbacks (revenues less transportation expenses).

Refinery operations and capacity

Feedstock is refined into a number of products, which are generally sold domestically. The refinery also refines crude oil on behalf of third parties for a processing fee. The refinery at Shymkent has a total operating capacity of 6.6 million tonnes per year or about 51.1 million barrels per year. Crude oil feedstock for our refinery is primarily acquired from our Upstream operations, but purchases are also made from third parties.

For the year ended December 31, 2002, the Shymkent refinery processed a total of 27.1 million barrels or 74,150 bopd compared to 26.3 million barrels or 72,107 bopd in 2001. Included in this production is 1.3 million barrels refined for third parties in 2002 and 5.4 million barrels in 2001. During the nine months ended December 31, 2000, the Shymkent refinery processed 17.2 million barrels of 62,407 bopd, of which 5.5 million barrels were refined for third parties.

The refinery continues to focus on the improvement of yields while minimizing the production of lower-end and lower-value products. The production of mazut, a lower-end and lower-value product, has been reduced year over year. Mazut yield in 2002 averaged 35.9% versus 40.4% in 2001. At the end of 2002 mazut yield was 35.7% versus 42.9% at the end of 2001. The improvement is attributed to capital improvement projects and process changes including the overhaul of the main tower K-102 internals that resulted in less fractionation overlap. The refinery also increased the mazut throughput of the visbreaker unit in 2002, reducing its pour point to produce additional amounts of light, higher value products.

Royalties

Royalties are levied at differing rates for each of our oil fields. The table below sets out the parameters for each field. Royalty rates remain the same throughout the term of the license.

Royalties are collected quarterly with the exception of Kumkol North, where royalties are collected monthly, and can either be paid in cash or in kind. The choice of collection method rests with the Government of Kazakhstan and can vary from quarter to quarter. Where royalties are paid in cash the crude oil to which the relevant royalty percentage is applied is valued at the wellhead. Where royalties are taken in kind, the Government pays all related costs of transporting the crude from our CPF.

		Annual Production at which Maximum	Effective Average Royalty Rate		
Field	Range	Royalty Rate is Charged	**2002**	2001	2000
Kumkol South	3.0 – 15.0%	11.62 mmbbls	**10.9%**	10.4%	10.2%
Kumkol North	9.0%	Flat	**9.0%**	9.0%	9.0%
South Kumkol	10.0%	Flat	**10.0%**	10.0%	10.0%
Kyzylkiya	1.5 – 2.5%	24.8 mmbbls*	**1.5%**	1.5%	1.5%
Aryskum	1.5 – 2.5%	52.7 mmbbls*	**1.5%**	1.5%	–
Maibulak	3.0 – 6.0%	3.9 mmbbls	**3.0%**	3.0%	–
Kazgermunai Fields	3.0 – 15.0%	11.62 mmbbls	**4.5%**	4.2%	–

*Royalty rate is based upon cumulative life of field production.

Taxation

We are subject to a number of taxes in Kazakhstan including, but not limited to, income tax, excess profits tax, excise tax, land tax, property tax, transportation tax and mandatory contributions to social funds. Income is taxed at the Kazakhstani statutory rate of 30%. Excess profits tax has been negotiated with the Kazakhstani government in each hydrocarbon contract with the exception of the Kazgermunai licenses. With respect to the Kumkol South, South Kumkol and KAM fields, we are subject to excess profit tax at rates that vary from 0% to 30% based on the cumulative internal rate of return. With respect to Kumkol North, we are subject to excess profit tax at rates that vary from 0% to 50% based on the cumulative internal rate of return. We have not incurred any excess profit tax with respect to production from any of our fields. In 2003, the determination of excess profit taxes will be dependent upon crude oil prices and the level of capital expenditures.

Our Upstream operations are subject to excise tax on our domestic sales in Kazakhstan, for crude oil from the South Kumkol field, at a rate of 7.00 euros/tonne and the Maibulak field at a rate of 2.00 euros/tonne. Sales of gasoline are subject to excise tax at a rate of $29.00/tonne and diesel at a rate of $3.50 /tonne.

Within the hydrocarbon contracts for our production licenses are tax stability clauses that establish the tax regimes under which we operate. These are fixed as of the date of signing the agreement and remain in effect for the term of the agreement.

The foundation agreement for Kazgermunai provides for a tax on the profits of Kazgermunai with respect to its operations in the Akshabulak, Nurali and Aksai fields. The foundation agreement provides for taxes of: (i) 25% on annual profits up to $20.0 million, (ii) 30% on annual profits between $20.0 million and $30.0 million, (iii) 35% on annual profits between $30.0 million and $40.0 million and (iv) 40% on annual profits exceeding $40.0 million.

Kazakhstani income taxes are payable based upon financial statements prepared in accordance with Kazakhstani laws. The majority of the differences are temporary differences where an expense or revenue item is recorded for Canadian GAAP purposes in a different period than allowed under Kazakhstani law. The statutory income tax rate in Kazakhstan is 30%.

Adoption of certain accounting standards

Effective January 1, 2000, we adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to future income taxes. Under this recommendation, future income tax assets and liabilities are computed based upon temporary differences between the accounting and taxation basis of assets and liabilities. On January 1, 2000, we recorded a future income tax asset of $19.1 million on the basis that realization of such asset is more likely than not. The restatement was applied retroactively without restatement of prior year figures. This increased retained earnings at January 1, 2000 by $19.1 million.

Effective January 1, 2001 we adopted the new recommendation of the CICA with respect to net income per share. The comparative diluted net income per share amounts for the year ended December 31, 2000 have been restated, to give effect to the new recommendation (Note 2 of the Consolidated Financial Statements).

We adopted the recommendations of the CICA regarding stock-based compensation. We elected to use the intrinsic value method in accounting for stock options and to disclose the pro forma results of using the fair value method (Note 16 of the Consolidated Financial Statements).

RESULTS OF OPERATIONS

For the year ended December 31, 2002 we generated $162.6 million of net income and $216.8 million of cash flow. This represents basic net income per share of $2.01 and basic cash flow per share of $2.68 for the year. The comparable figures for 2001 were net income of $169.3 million or $2.12 basic net income per share and $200.3 million of cash flow with basic cash flow per share of $2.51.

2002 saw a significant increase in non-FCA sales as compared to 2001. At the end of 2002 approximately 1.6 million barrels of non-FCA sales were incomplete and hence, included in inventory. The effect of this was to cause an estimated $13.0 million of net income to be deferred into 2003.

Revenue, production and sales

Total revenue was $814.7 million for the year ended December 31, 2002, which represented an increase of $211.6 million over total revenue of $603.1 million for the year ended December 31, 2001. Our increase in total revenue is due to a $228.1 million increase in crude oil revenue offset by a $7.0 million decrease in refined products revenue and a decrease in processing fees and interest and other income. Our crude oil revenue increased because of our increased production, higher crude oil export prices and due to our increasing use of non-FCA sales.

Upstream

Upstream production averaged 135,842 bopd for 2002, 100,877 bopd for 2001 and 84,090 bopd for 2000. The tables below set out total production and sales from our Upstream operations.

The following table sets out total production figures from Upstream operations for the years ended December 31.

(mmbbls)	**2002**	2001	2000
Opening inventory of crude oil	**0.70**	0.39	0.04
Production	**49.58**	36.82	30.69
Crude oil purchased from third parties	**0.68**	–	0.08
Crude oil purchased from joint ventures (50%)	**2.92**	–	–
Sales or transfers	**(51.08)**	(36.47)	(30.38)
Pipeline losses	**(0.08)**	(0.04)	(0.04)
Closing inventory of crude oil	**2.72**	0.70	0.39

The following table sets out total crude oil sales volumes from Upstream operations for the years ended December 31.

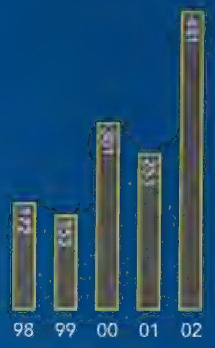
	2002		2001		2000	
	mmbbls	**%**	mmbbls	%	mmbbls	%
Crude oil exports	**25.89**	**50.7**	18.15	49.8	1.08	3.6
Crude oil transferred to downstream	**16.82**	**32.9**	10.83	29.7	6.83	22.5
Crude oil transferred to downstream and exported	**–**	**–**	0.15	0.4	9.58	31.5
Crude oil transferred to downstream by joint ventures (50%)	**4.39**	**8.6**	4.83	13.2	1.80	5.9
Crude oil sold to HOP in Quarter 1, 2000	**–**	**–**	–	–	6.29	20.7
Royalty payments	**3.48**	**6.8**	1.69	4.7	1.32	4.3
Crude oil domestic sales	**0.50**	**1.0**	0.82	2.2	3.48	11.5
Total crude oil sales or transfers	**51.08**	**100.0**	36.47	100.0	30.38	100.0

Total consolidated revenue from crude oil sales amounted to $481.1 million in 2002, $253.0 million in 2001 and $301.2 million in 2000.

The increase in 2002 resulted from the increased volumes of crude oil sales from 20.8 million barrels at an average price of $12.16/bbl in 2001 compared to 29.9 million barrels at an average price of $16.11/bbl in 2002. The major reason for the increase in both volumes and average price is due to the shift to non-FCA sales (10.2 million barrels sold in 2002 at the average price of $22.70/bbl compared to 0.4 million barrels sold in 2001 at the average price of $17.72/bbl). Without non-FCA sales, crude oil sales in 2002 are consistent with 2001 (19.7 million barrels at the average price of $12.68/bbl in 2002 compared to 20.4 million barrels at the average price of $12.05/bbl in 2001).

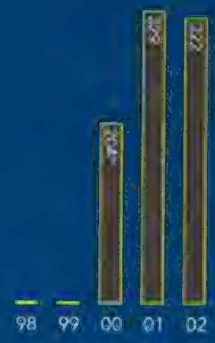
The reduction of crude oil sales of $48.2 million in 2001 compared to 2000 was due to the decrease in volumes of 940,000 barrels from 21.8 million barrels in 2000 and a decrease in the average prices realized from $13.85/bbl in 2000 to $12.16/bbl in 2001.

Crude oil sales
(millions of dollars)



Exports as a % of total crude oil sales volumes

Refined product sales
(millions of dollars)



* nine months revenue – from date of acquisition March 31, 2000

Total crude oil revenue can be analysed as follows:

	Quantity Sold	Net Realized Price	Revenue
	(mmbbls)	*($/bbl)*	*($000's)*
2002			
Crude sales sold FCA	**12.74**	**13.48**	**171,711**
Crude sales sold non-FCA	**10.21**	**22.70**	**231,766**
Kazgermunai export sales	**2.94**	**14.22**	**41,813**
Royalty payments	**3.48**	**9.27**	**32,247**
Crude oil domestic sales	**0.50**	**7.15**	**3,577**
Total	**29.87**	**16.11**	**481,114**
2001			
Crude sales sold FCA	15.58	11.34	176,720
Crude sales sold non-FCA	0.39	17.72	6,910
Kazgermunai export sales	2.33	18.16	42,307
Royalty payments	1.69	11.38	19,232
Crude oil domestic sales	0.82	9.53	7,812
Total	20.81	12.16	252,981
2000			
Crude sales sold FCA	10.66	19.52	208,078
Royalty payments	1.32	8.60	11,358
Crude oil domestic sales	9.77	8.37	81,780
Total	21.75	13.85	301,216

Downstream

We acquired the Shymkent refinery on March 31, 2000. The comparative numbers in the tables for 2000 include only the nine months from the date of acquisition.

The refinery has a total design operating capacity of 6.6 million tonnes per year or the equivalent of approximately 51.1 million barrels per year. However, due to the size of the available market for refined products in Kazakhstan, the refinery operated at 53% capacity or 27.1 million barrels in 2002, 51.5% capacity or 26.3 million barrels in 2001 and 44.8% capacity or 17.2 million barrels during the nine months of our operation of the refinery in 2000.

The refinery continues to focus on the improvement of yields while minimizing the production of lower-end and lower-value products. The production of mazut a lower-end and lower-value product has been reduced year over year. Mazut yield in 2002 averaged 35.9% versus 40.4% in 2001.

The crude oil feedstock for the refinery is primarily acquired from Upstream operations but purchases are also made from third parties.

The following table sets out the source of feedstock supplies for our refinery:

(mmbbls)	**2002**	2001	2000
Acquired from HKM	**16.82**	10.98	16.41
Purchased from joint ventures (100%)	**8.78**	9.66	3.61
Purchased from third parties	–	0.59	1.05
Total feedstock acquired	**25.60**	21.23	21[illegible]

The following table sets out the source of inventory levels of feedstock:

(mmbbls)	**2002**	2001	2000
Opening inventory of crude oil feedstock	**0.34**	0.08	[illegible]
Purchase and acquisition of feedstock	**25.60**	21.23	21.0[illegible]
Recoverable feedstock from traps	**0.03**	0.04	0[illegible]
Feedstock sold for export	–	(0.15)	(9[illegible]
Feedstock sold domestically	–	–	(0.0[illegible]
Feedstock refined into product	**(25.77)**	(20.86)	(11.60)
Closing inventory of feedstock	**0.20**	0.34	0.08

The following table sets out the movement in inventory of refined product:

*(mmtonnes)**	**2002**	2001	2000
Opening inventory of refined product	**0.20**	0.13	0.11
Refined product from feedstock	**3.09**	2.55	1.46
Refined product acquired	**0.09**	0.09	0.15
Refined product sold	**(3.16)**	(2.55)	(1.54)
Refined product internal use and yield losses	–	(0.02)	(0.05)
Closing inventory of refined product	**0.22**	0.20	0.13

* The inventory of products represents a mix of products for which no unique conversion from barrels to tonnes exists. The standard conversion used for crude oil by us is 7.746 barrels to the tonne.

The crude oil feedstock is refined into a number of products, which are sold as refined products. Refined product sales revenue for 2002 was $322.0 million (2001 – $329.0 million and 9 months of 2000 – $203.7 million).

Sales of refined products in 2002 decreased by $7.0 million to $322.0 million as compared to 2001, as a result of price decreases, which were partially offset by increased volumes. Refined product sales of 3.2 million tonnes for 2002 were significantly higher than our 2.6 million tonnes in 2001. This increase in volumes was offset by a decline in the average price received (from $128.86/tonne in 2001 to $101.91/tonne in 2002). This decline occurred mainly during the first quarter of 2002 due to pressure on prices from increased Russian imports, and from mazut pricing, as there was an over supply during the export ban in the heating season from early fall to late winter. Product prices have recovered at the end of 2002.

Sales of refined products increased by $125.3 million from $203.7 million in 2000 to $329.0 million in 2001 due to an increase in sales volumes of 1.0 million tonnes, as the refinery was included for a full year in 2001 versus nine months in 2000.

The table below sets out the products sold for 2002, 2001 and 2000, the volume sold, the average price achieved and the revenue for each product.

Refined product revenue

Product Produced	Tonnes Sold	Average Price ($/tonne)	Revenue ($000's)
2002			
Gasoline	**785,846**	**145.90**	**114,653**
Diesel	**898,003**	**121.15**	**108,796**
Mazut	**1,087,564**	**42.37**	**46,078**
LPG	**108,931**	**79.35**	**8,644**
Jet fuel	**178,695**	**214.82**	**38,388**
Total self refined	**3,059,039**	**103.48**	**316,559**
Resale of purchased refined products	**101,023**	**54.23**	**5,478**
Total refined product sales	**3,160,062**	**101.91**	**322,037**
2001			
Gasoline	548,503	207.54	113,838
Diesel	710,029	178.30	126,600
Mazut	1,045,682	50.00	52,284
LPG	107,079	92.71	9,927
Jet fuel	57,829	231.84	13,407
Total self refined	2,469,122	128.00	316,056
Resale of purchased refined products	83,695	154.15	12,902
Total refined product sales	2,552,817	128.86	328,958
2000			
Gasoline	315,327	215.31	67,893
Diesel	433,222	185.30	80,274
Mazut	566,948	49.79	28,230
LPG	63,478	70.56	4,479
Jet fuel	16,637	226.30	3,765
Total self refined	1,395,612	132.30	184,641
Resale of purchased refined products	148,752	128.31	19,087
Total refined product sales	1,544,364	131.92	203,728

Processing fees

In addition to revenue generated from the refining and sale of product derived from acquired feed stock, the refinery also refined crude on behalf of third parties ("Tolling") for which it receives a fee. During 2002 the refinery tolled 1.3 million barrels for third parties (5.4 million barrels in 2001 and 5.5 million barrels in 2000). Third party tolling volumes decreased in 2002 as crude producers elected to export their volumes due to the higher margin for exported oil.

The table below sets out the total quantity of oil processed for third parties into refined products, the average fee charged and revenue earned.

	Volumes Processed	Fee	Pro[illegible] Rev[illegible]
	(tonnes)	*($/tonne)*	*($000's)*
2002	**171,251**	**15.54**	**2,661**
2001	694,924	16.32	11,338
2000	711,368	16.71	11,884

INTEREST AND OTHER INCOME

Revenues from interest and other income decreased by $0.9 million from $9.8 million in 2001 to $8.9 million in 2002. This decrease was due to a decline in third party service fees.

Revenues from interest and other income increased by $3.4 million from $6.4 million in 2000 to $9.8 million in 2001. The increase was primarily due to an increase in third party service fees.

PRODUCTION EXPENSES

Production expenses relate to the cost of producing crude oil in the Upstream operations and production expenses were $60.6 million in 2002, $41.2 million in 2001 and $35.3 million in 2000. Based on the number of barrels of oil produced, these costs are $1.22/bbl for 2002, $1.12/bbl for 2001 and $1.15/bbl for 2000.

The absolute increase between 2002 and 2001 of $19.4 million and the per barrel increase of $0.10 is the result of the increase in production volumes of 12.7 mmbbls or 35% in 2002 and additional maintenance work required due to increasing production of formation water. Other reasons for the increase were higher insurance costs in 2002 and geophysical work, mainly bottom hole sampling.

The increase between 2001 and 2000 of $5.9 million was due to the increase in production volumes of 6 mmbbls and the inclusion of the Kazgermunai joint venture for the entire year.

ROYALTIES AND TAXES

Royalties and taxes were $58.1 million in 2002 as compared to $41.0 million for 2001 and $33.7 million for 2000.

($000's)	**2002**	2001	2000
Royalties and production bonus	**47,892**	35,504	31,909
Tax assessments 1998 and 1999*	**5,121**	573	–
Other taxes	**5,099**	4,946	1,800
Royalties and taxes	**58,112**	41,023	33,709

* See Note 22 of the Consolidated Financial Statements

The royalty and production bonus expense for 2002 was $47.9 million, which represented an effective overall royalty rate of 9.03%. The royalty expense and production bonus expense for 2001 was $35.5 million, which is an overall royalty rate of 9.24%. For 2000 the expense was $31.9 million and the overall royalty rate was 9.95%. Our effective overall royalty rate has decreased as we have brought new fields with lower royalty rates on production. The absolute increase in royalties of 35% compared to 2001 is due to the increase in our production volumes and the increase from 2000 to 2001 is also due to an increase in our production volumes.

The table below indicates the royalty and production bonus paid in kind and in cash by quarter in 2002, 2001 and 2000.

($000's)	Royalty in Kind	Cash Royalty	Total Royalty
2002, Quarter Ending			
March 31	**2,972**	**3,738**	**6,710**
June 30	**7,456**	**1,295**	**8,751**
September 30	**12,723**	**3,320**	**16,043**
December 31	**2,967**	**13,421**	**16,388**
Total	**26,118**	**21,774**	**47,892**
2001, Quarter Ending			
March 31	–	5,589	5,589
June 30	6,680	2,634	9,314
September 30	11,103	1,493	12,596
December 31	7,526	479	8,005
Total	25,309	10,195	35,504
2000, Quarter Ending			
March 31	–	5,694	5,694
June 30	785	4,912	5,697
September 30	5,563	1,401	6,964
December 31	9,548	4,006	13,554
Total	15,896	16,013	31,909

For the fourth quarter of 2002, HKM paid its royalties in cash as opposed to the first three quarters of 2002 when they were paid in kind. Turgai paid royalty in kind in the fourth quarter of 2002, as opposed to the first three quarters of 2002, where Turgai paid in cash.

TRANSPORTATION

Transportation costs are made up of the costs of shipping crude oil from the CPF to the Shymkent refinery, the costs of trucking crude oil from the KAM fields to the CPF and railway transportation from the Shymkent refinery under non-FCA sales contracts. Transportation costs also include transportation of crude produced by our Kazgermunai joint venture to its export customers.

The pipeline tariff from the CPF to Shymkent depends on the ultimate destination of the crude oil. In 2002, the tariff charged in respect of crude oil destined for export was $1.41/bbl (2001 – $1.41/bbl and 2000 – $1.00/bbl), whereas the cost for crude oil processed at the refinery is $0.81/bbl (2001 – $0.84/bbl, 2000 – $0.81/bbl).

The table below sets out the constituent components of transportation costs.

($000's)	**2002**	2001	2000
Pipeline	**56,230**	33,396	25,152
Kazgermunai transportation	**8,462**	8,829	–
Railway	**93,305**	6,255	–
Other	**5,804**	1,757	–
Total	**163,801**	50,237	25,152

The absolute increase in pipeline costs is due to the increased volumes of crude oil exported in 2002 versus 2001, which attracts a higher tariff. For 2002, export volumes were 25.9 million barrels or 41% higher than foı 2001. Railway transportation increased as compared to 2001 due to the shift to non-FCA sales. Other related transportation costs are mainly trucking costs incurred to transport crude oil from the KAM fields to the central processing facility located at Kumkol. These costs have increased in proportion to the increase in production from the KAM fields.

The absolute increase in transportation costs in 2001 compared to 2000 was due to increased export sales volumes of 7.6 million barrels, as well as an increase in the pipeline tariff. There were no non-FCA sales in 2000 and therefore we had no railway costs. The KAM fields were not on production in 2000.

REFINING

Refining costs represent the direct costs related to processing all crude oil including tollers' volumes The total refining costs in 2002 were $21.7 million or $0.80/bbl of crude oil processed compared to $20.6 million or $0.78/bbl in 2001. The increase of $1.1 million year over year is mainly due to increased repair and maintenance at the refinery in 2002 as part of our ongoing maintenance program. In August of 2002, six refinery workshops, including the transportation, construction and repair workshops each of which has a direct impact on refining costs, became independent from the refinery. Costs incurred in separating these workshops are included in refining costs for 2002.

Refining costs in 2000 were $12.6 million or $0.75/bbl of crude oil processed compared to $20.6 millior $0.78/bbl in 2001. The absolute increase in refining costs in 2001 is from a full year's activity being include in 2001 and increased processing. The increase on a per barrel basis was brought about by increased hea and energy costs during 2001 as the contract with the local power station was changed such that full marke rates were paid for power, as opposed to the reduced rates in 2000. Correspondingly, HOP charged market prices for its fuel oil sales to the power plant.

CRUDE OIL AND REFINED PRODUCT PURCHASES

Crude oil and refined product purchases represent the cost of purchasing crude oil for the refinery from third parties, as well as refined product for resale. Purchases and sales between our Upstream and Downstream business units are eliminated on consolidation.

($000's)	**2002**	2001	2000
Crude oil	**69,410**	64,373	30,495
Refined products	**3,917**	14,415	17,605
Total	**73,327**	78,788	48,100

Crude oil and refined products purchases decreased in 2002 compared to 2001 due to a decrease in purchases of refined products. Crude oil and refined products purchases increased in 2001 compared to 2000 by $30.7 million due to an increase in purchased volumes of 2.56 million barrels from 2.86 million barrels in 2000.

SELLING

Selling expenses are comprised of the costs of operating the seven distribution centres of our Downstream operations that sell refined products, and certain costs associated with the sale and export of crude oil. Selling expenses in 2002 were $23.3 million compared to $19.3 million in 2001 and $7.7 million in 2000.

($000's)	**2002**	2001	2000
Crude oil	**3,471**	5,622	–
Refined products	**19,782**	13,655	7,728
Total	**23,253**	19,277	7,728

The absolute increase in 2002 compared to 2001 is the direct result of increased sales volumes. We sold 54.4 million barrels of crude oil and refined products during 2002 (2001 – 40.6 million barrels), a 34% increase in volumes compared to a 21% increase in costs.

The absolute increase in 2001 compared to 2000 is due to the inclusion of a full year of Downstream operations and increased sales volumes of 6.8 million barrels from 33.8 million barrels in 2000.

GENERAL AND ADMINISTRATIVE

The table below analyses total general and administrative costs between Upstream, Downstream and Corporate. In the case of Upstream and Downstream the general and administrative costs are also reflected on a per barrel basis.

	General and Administrative *($000's)*	Per Barrel of Oil Produced or Processed* *($/bbl)*
2002		
Upstream	**37,093**	**0.75**
Downstream	**17,216**	**0.64**
Corporate	**4,570**	
Total	**58,879**	
2001		
Upstream	28,024	0.76
Downstream	17,906	0.68
Corporate	5,564	
Total	51,494	
2000		
Upstream	25,497	0.83
Downstream	14,200	0.83
Corporate	4,868	
Total	44,565	

* Including tollers' volumes

The increase in 2002 of $7.4 million compared to 2001 is due to increased activity in Upstream operations, including increases in staff, insurance, legal and consulting costs. There has also been a change in 2002 in the method of allocating centrally incurred general and administrative costs whereby a higher percentage of costs are allocated to Upstream.

Our Upstream field office is located in Kyzylorda, the majority of our staff are there, and all related costs are classified as general and administrative in nature as opposed to production costs.

The increase in 2001 from 2000 relates to the inclusion of HOP for the entire year versus nine months in 2000 and the consolidation of our Kazgermunai joint venture for an entire year versus one month in 2000.

INTEREST AND FINANCING

The following table sets out the interest expense and any related amortization of debt issue costs or discounts upon issuance of the debt instrument.

($000's)	**2002**	2001	2000
Short-term debt	**1,470**	1,855	–
Term facility	**4,106**	–	–
Kazgermunai debt	**3,447**	5,960	118
12% Notes	**24,936**	8,881	–
HOP bonds	**1,514**	1,029	–
Canadian and U.S. notes	**–**	1,805	18,590
Total	**35,473**	19,530	18,708

The increase in interest of $16 million is mainly due to the 12% Notes being outstanding for all of 2002 as compared to five months in 2001.

DEPRECIATION AND DEPLETION

Depreciation and depletion has increased by $10.8 million in 2002. This increase is due to the increas[illegible] production as compared to 2001 and capital additions in 2002. The effect of these increases was partly o[illegible] by an increase in proved producing reserves.

	Depreciation and Depletion ($000's)	De[illegible] and [illegible]
2002		
Upstream	**31,647**	**0.64**
Downstream	**13,347**	**0.49**
Corporate	**94**	
Total	**45,088**	
2001		
Upstream	24,116	0.65
Downstream	9,764	0.37
Corporate	374	
Total	34,254	
2000		
Upstream	7,707	0.25
Downstream	6,973	0.41
Corporate	–	
Total	14,680	

* Downstream includes tollers' volumes

In accordance with Canadian and United States accounting standards, and to provide comfort that anticipated future revenues are sufficient to cover the capitalised costs of properties, we perform a quarterly "ceiling test". The ceiling test for the year ended December 31, 2002 demonstrated that future net revenues exceed the carrying value of the Upstream properties under the full cost method of accounting.

INCOME BEFORE INCOME TAXES

As a result of the foregoing factors, we had income before income taxes of $265.1 million for 2002, as compared to $239.7 million for 2001 and $264.6 million for 2000.

UNUSUAL ITEMS

We were named as defendants in a claim filed by a company alleging it was retained under a consulting contract, as disclosed in Note 22 to the Consolidated Financial Statements for the year ended December 31, 2002. The arbitration decision was received in 2002 and we accrued and paid $7.1 million for full settlement of the claim.

In 2001 we incurred $5.5 million in costs defending ourselves from a potential takeover bid. In 2000 we incurred $20.4 million in costs for restructuring and waiver fees (Please refer to Note 3 to the Consolidated Financial Statements).

INCOME TAXES

($000's)	**2002**	2001	2000
Upstream	**53,461**	18,859	(8,139)
Downstream	**37,189**	43,744	98,706
Corporate	**9,845**	5,791	9,090
Total	**100,495**	68,394	99,657

The increase in income taxes by $32.1 million in 2002 is a result of the following items:

- Upstream tax charges have increased due to the increase in sales volumes and in the price of crude oil;
- $11.3 million due to the recognition of a deferred tax asset in 2001, which reduced 2001 taxes by a corresponding amount;
- $7.5 million due to the non-deductibility for tax purposes of interest paid on the 12% Notes;
- $4.5 million due to court decision with respect to the tax rate for South Kumkol (Note 22).

The decrease in income taxes by $31.3 million in 2001 compared to 2000 is a result of the following items:

- $11.3 million due to recognition of a deferred tax asset in 2001 (Note 17);
- Decrease in non-deductible items in 2001 as we incurred $20.4 million of non-deductible restructuring costs in 2000.

The corporate tax expense relates to taxes paid by Hurricane Overseas Services Inc., the company that provides services to the operating subsidiaries in Kazakhstan, and the tax impact of non-deductible interest. Please refer to Note 17 of the Consolidated Financial Statements for further information pertaining to income taxes.

NET INCOME

As a result of the foregoing factors, we had net income for 2002 of $162.6 million compared to net income of $169.3 million for 2001 and $154.9 million in 2000.

NET RETURN PER BARREL

Set out below are the details of the average net return achieved for export sales and sales derived from the refining of our own crude.

($/bbl)	Crude Oil Exports	Own Crude Oil Refined and Sold
2002		
Net sales price achieved	**17.20**	**13.16**
Transportation costs	**(5.04)**	**(0.94)**
Production and refining costs	**(1.22)**	**(2.02)**
Purchase of crude oil	**(0.55)**	**–**
Royalty	**(1.16)**	**(1.18)**
Selling costs	**(0.23)**	**(0.67)**
General and administrative costs	**(0.75)**	**(1.39)**
Net return per barrel	**8.25**	**6.96**
2001		
Net sales price achieved	12.34	[illegible]
Transportation costs	(1.87)	[illegible]
Production and refining costs	(1.12)	(1.90)
Royalty	(0.96)	[illegible]
Selling costs	(0.15)	[illegible]
General and administrative costs	(0.76)	[illegible]
Net return per barrel	7.48	[illegible]
2000		
Net sales price achieved	19.52	[illegible]
Transportation costs	(1.00)	[illegible]
Production and refining costs	(1.15)	[illegible]
Royalty	(1.10)	[illegible]
Selling costs	–	(0.45)
General and administrative costs	(0.83)	(1.66)
Net return per barrel	15.44	11.17

The net return per barrel for crude oil exports improved by $0.77 in 2002 compared to 2001 as a result of the increase in the price of crude oil, offset in part, by the increase in transportation costs. Net return per barrel on refined product sales is substantially lower than in 2001 due to lower prices received for refined products.

The net return per barrel for crude oil exports decreased by $7.96 in 2001 compared to 2000 due to higher oil prices in 2000 (average Brent for 2000 was $28.4/bbl versus $24.4/bbl during 2001), as well as increases in pipeline tariffs. Refined product net returns decreased by $0.64 in 2001 due to lower prices received for refined products.

COMPARISON OF COMPLETED FCA AND NON-FCA SALES

2002, Quarter Ended *($/bbl)*	**March 31**	**June 30**	**September 30**	**December 31**
FCA				
Average Brent	**21.99**	**24.96**	**27.01**	**25.01**
Differential	**13.26**	**13.50**	**13.74**	**13.56**
Netback at Kumkol	**8.73**	**11.46**	**13.27**	**11.45**
Non-FCA				
Average Brent	**23.15**	**24.74**	**27.07**	**26.81**
Differential	**12.82**	**14.48**	**15.20**	**14.14**
Netback at Kumkol	**10.33**	**10.26**	**11.87**	**12.67**

The table above sets out our two types of sales transactions on a completed sale basis and is mainly a comparison of the Aktau route (FCA) with all of our other routes (non-FCA). The Aktau route is supported by the government and consequently, it receives preferential rail tariffs. It compares transactions that were completed in the quarter as opposed to shipments made in the quarter. We use this analysis, as it compares transactions finalized in the quarter. The average Brent is the average Brent price we received for all sale transactions for the quarter. Pricing is specific to the bill of lading date and the differential represents all costs to move our crude oil from Kumkol to various final destinations.

Our differential deteriorated for the first three quarters of 2002 and recovered in the fourth quarter as we increased the use of lower cost routes. While the average Brent price is comparable for the second and third quarters for the FCA versus non-FCA sales, it differs markedly for the two types of transactions in the first and fourth quarters because of the timing of when sales took place. For example, at the end of the fourth quarter when oil prices were at their highest level for the year, we had only non-FCA sales.

For the last three quarters of 2002, the FCA differential has been significantly better than the non-FCA differential. The combination of FCA and non-FCA sales leads to competition and, on an overall basis, a lower differential.

CAPITAL EXPENDITURES

The table below provides a breakdown of capital expenditures.

($000's)	**2002**	2001	2000
Upstream			
Development wells	**40,489**	10,650	3,045
Facilities and equipment	**67,884**	79,330	7,287
Exploration	**23,502**	10,279	4,529
Downstream			
Refinery HS&E	**773**	796	233
Refinery sustaining	**4,019**	5,046	3,244
Refinery return projects	**3,364**	3,013	2,362
Marketing and other	**71**	477	927
Corporate	**–**	616	–
Total capital expenditure	**140,102**	110,207	21,627

In 2003, capital expenditures will be incurred to:

- Continue development of the Kumkol South and South Kumkol fields.
- Complete and commission the KAM pipeline.
- Further develop the KAM fields.
- Continue exploration, including the drilling of deep wells in license 260 D1.
- Further develop fields within our joint ventures.
- Implement HS&E projects for the refinery.
- Implement projects designed to increase the efficiency of the refinery.
- Complete and commission our gas utilization project ("GUP").

Our 2003 capital budget is $167.0 million, of which $35.3 million is contractually committed. These are commitments for the KAM pipeline, GUP and construction and commissioning of a new boiler at HOP. The 2003 budget has been allocated as follows:

($ millions)	
Upstream, including joint ventures	135.2
Downstream	17.6
Marketing and trading	8.1
Corporate	6.1
Total	167.0

RISKS

Commodity price risk

Commodity price risk related to crude oil prices is our most significant market risk exposure. Crude oil prices are influenced by such worldwide factors as OPEC actions, political events, and supply and demand fundamentals.

FCA differential/transportation

Our most significant expenditure is the FCA differential or, in the case of non-FCA sales, the cost of transportation. The construction of the KAM pipeline and access to CPC and other pipelines, to the extent we are able to negotiate such access, will help address this issue. The completion of the KAM pipeline is expected to lower costs for exported crude oil by approximately $2.00 to $2.50/bbl shipped. We are also striving to open new routes with lower transportation costs. We have a full team in place, dedicated to minimizing our transportation costs.

Government taxes

We are currently engaged in litigation with respect to tax assessments received for prior years, for which the final outcome is uncertain. The impact of this pending litigation will be significant, but will not have a material adverse impact, if we do not prevail in our position with respect to these assessments.

Please refer to Note 22, Commitments and Contingencies of the Consolidated Financial Statements.

Kazakhstani environment and legislation

Please refer to Note 22, Commitments and Contingencies of the Consolidated Financial Statements.

FINANCIAL RISKS

Please refer to Note 19, Financial Instruments of the Consolidated Financial Statements for an analysis of our financial risks.

LIQUIDITY

The levels of cash, current assets and current liabilities at the balance sheet date for the last two financial years is set out below.

AS AT DECEMBER 31 *($000's)*	**2002**	2001
Cash and cash equivalents	**74,796**	64,812
Cash flow	**216,794**	200,349
Working capital*	**86,987**	49,138
Net debt	**217,754**	268,920
Ratio of cash flow to net debt	**1.0**	0.7
Ratio of cash flow to fixed charges**	**6.1**	10.2
Ratio of earnings to fixed charges***	**8.5**	13.2

* Working capital is net of cash and short-term debt
** Fixed charges includes interest expense and preferred dividends before tax
*** Earnings is net income plus fixed charges

Working capital excluding cash and short-term debt as at December 31, 2002 was $87.0 million ($49.1 million as at December 31, 2001). The increase is due to our transition to non-FCA sales, whereby customers pay after the crude oil is delivered and we pay transportation charges in advance. Inventory has risen significantly because of our increased use of non-FCA sales and is partially offset by an increase in accounts payable.

Cash is managed centrally through the treasury department in Kazakhstan. Surplus funds are placed on deposit in Canada. Funds held within Kazakhstan are used to meet operational and immediate capital expenditure needs.

Our Kazgermunai non-recourse debt was repaid in part during 2002 (our 50% share repaid was $18.9 million of debt and accrued interest).

Our term facility for $60.0 million was repaid on December 28, 2002, and on February 3, 2003 we redeemed all $208.2 million of our outstanding 12% Notes.

Cash flow from our operations, together with proceeds of our new financings, provide us with sufficient means to implement our plans for 2003. Our new financings improve the structure of our balance sheet with a term of four years for our term facility with repayments of equal monthly amounts of principal commencing after six months and with a seven-year term on our new issue of $125.0 million principal amount 9.625% Notes (the "9.625% Notes") due 2010. Of our 2003 capital budget of $167.0 million, $35.3 million is committed and we can curtail capital expenditures if necessary, to maintain liquidity.

Details of our new facilities are set out in Note 23 of the Consolidated Financial Statements.

SENSITIVITIES

($ millions)	Net income
The estimated 2003 impact of:	
Crude oil – $1.00/bbl change in dated Brent	33.0
Export transportation differential – $1.00/bbl change	25.0
Interest rates – 1.0% change	1.6

OUTLOOK

The KAM pipeline is on schedule for commissioning at the end of the second quarter of 2003, which will lead to a significant reduction in the costs relating to the export of crude oil. The GUP is scheduled for commissioning in the third quarter of 2003. This will significantly reduce our flaring of produced gas and provide a stable supply of electricity to our fields. The vacuum distillation unit is scheduled to be commissioned during the fourth quarter of 2003. This will further reduce our production of mazut, allowing us to improve our overall refining margin.

Our financial position is strong, our new financings completed early in 2003 provide a maturity of four years for the $225.0 million term facility with equal monthly principal repayments after six months and a maturity of seven years for our $125.0 million 9.625% Notes. This improves the structure of our balance sheet and our ability to withstand volatile oil prices.

We will continue to have a strong exploration and development program with our 2003 production target at 165,000 bopd, a 22% increase over 2002.

Our challenge for 2003 is to manage our transportation of crude oil destined for export, improving efficiencies and reducing costs.

QUARTERLY INFORMATION

The table below sets out selected quarterly information for 2002, 2001 and 2000.

			Net Income *($/share)**	
($000's)	Total Revenue	Net Income	Basic	Diluted
2002, Quarter Ended				
March 31	**143,331**	**23,109**	**0.29**	**0.28**
June 30	**177,398**	**33,808**	**0.42**	**0.40**
September 30	**247,962**	**60,513**	**0.74**	**0.71**
December 31	**249,921**	**45,138**	**0.56**	**0.54**
2001, Quarter Ended				
March 31	139,243	55,372	0.69	0.67
June 30	174,849	44,435	0.56	0.54
September 30	160,743	46,490	0.58	0.55
December 31	128,221	23,043	0.29	0.27
2000, Quarter Ended				
March 31	61,191	(1,983)	(0.04)	(0.04)
June 30	154,831	48,364	0.61	0.54
September 30	172,776	62,297	0.79	0.76
December 31	134,403	46,252	0.58	0.55

* Net income per share for 2000, has been restated to reflect the revised recommendations of the Canadian Institute of Chartered Accountants.

Corporate governance

The Board of Directors and senior management of Hurricane consider good corporate governance to be central to the effective and efficient operation of Hurricane and its business.

Hurricane's Board of Directors (the "Board") and management are committed not only to satisfying legal and regulatory requirements, but also to developing and maintaining corporate governance practices that reflect evolving best practices standards as appropriate to Hurricane and its business.

The Board and management have been following developments in corporate governance requirements and best practices standards in both Canada and the United States closely. Hurricane will comply with legal requirements once they are finalized and will review the final form of corporate governance best practices standards of the stock exchanges on which it is listed with a view to adopting those practices which are appropriate to Hurricane and its business. Set out below are some of the highlights of Hurricane's current corporate governance practices. A full report of Hurricane's corporate governance practices is set out in the Management Proxy Circular issued in connection with the 2003 Special and Annual Meeting of Shareholders.

MANDATE OF THE BOARD

The mandate of the Board is to manage the business and affairs of Hurricane. Pursuant to this mandate, it has explicitly assumed responsibility for the stewardship of Hurricane and, as part of the overall stewardship responsibility, has assumed the responsibilities described below:

- The Board provides input to management in the development of Hurricane's strategic plan, approves that plan and monitors management's execution of that plan. As part of the Board's responsibility for the strategic planning process, the Board establishes the goals of the business of Hurricane with the input of management and strategies and policies within which Hurricane is managed. Management is required to seek approval of the Board for material deviations, financial or otherwise, from the approved business goals, strategies and policies.
- It is management's responsibility to identify the principal risks to Hurricane's business and to develop strategies to manage those risks. The Board receives regular reports from management on those risks, the systems in place to manage those risks and the effectiveness of those systems.
- The Board is responsible for the appointment, appraisal and monitoring of Hurricane's senior management. Hurricane's policy is to attract management personnel whose prior experience results in them having been well trained for their responsibilities with Hurricane. The Board discusses succession issues with the CEO on a regular basis and becomes acquainted with other members of senior management, their experience and skill sets. The Board encourages senior management to participate in appropriate professional and personal development activities, courses and programs, and supports management's commitment to the training and development of all permanent employees.
- The Board oversees the policy of communications by Hurricane [illegible] with its shareholders and, in conjunction with manageme[illegible] continues to review Hurricane's approach to communicatio[illegible] with its shareholders, regulatory bodies, governments, me[illegible] and the public.
- The Board oversees the integrity of Hurricane's inte[illegible] control and management information systems, incl[illegible] reports from management, from the external auditors and f[illegible] the Audit Committee.

BOARD COMPOSITION

The Board consists of six members, five of whom are unrel[illegible] directors and one of whom is a related director within the m[illegible] of the guidelines set out in The Toronto Stock E[illegible] Corporate Governance Policy.

COMMITTEES

The Board has established three committee[illegible] Committee, the Compensation Committee and th[illegible] Governance Committee. All committees are com[illegible] outside directors, all of whom are also unrelat[illegible]

RECENT DEVELOPMENTS

A Disclosure Committee, composed of [illegible] including financial officers of Hurricane, ha[illegible] assist and advise the Chief Executive Offi[illegible] Officer with respect to Hurricane's internal c[illegible] of financial information.

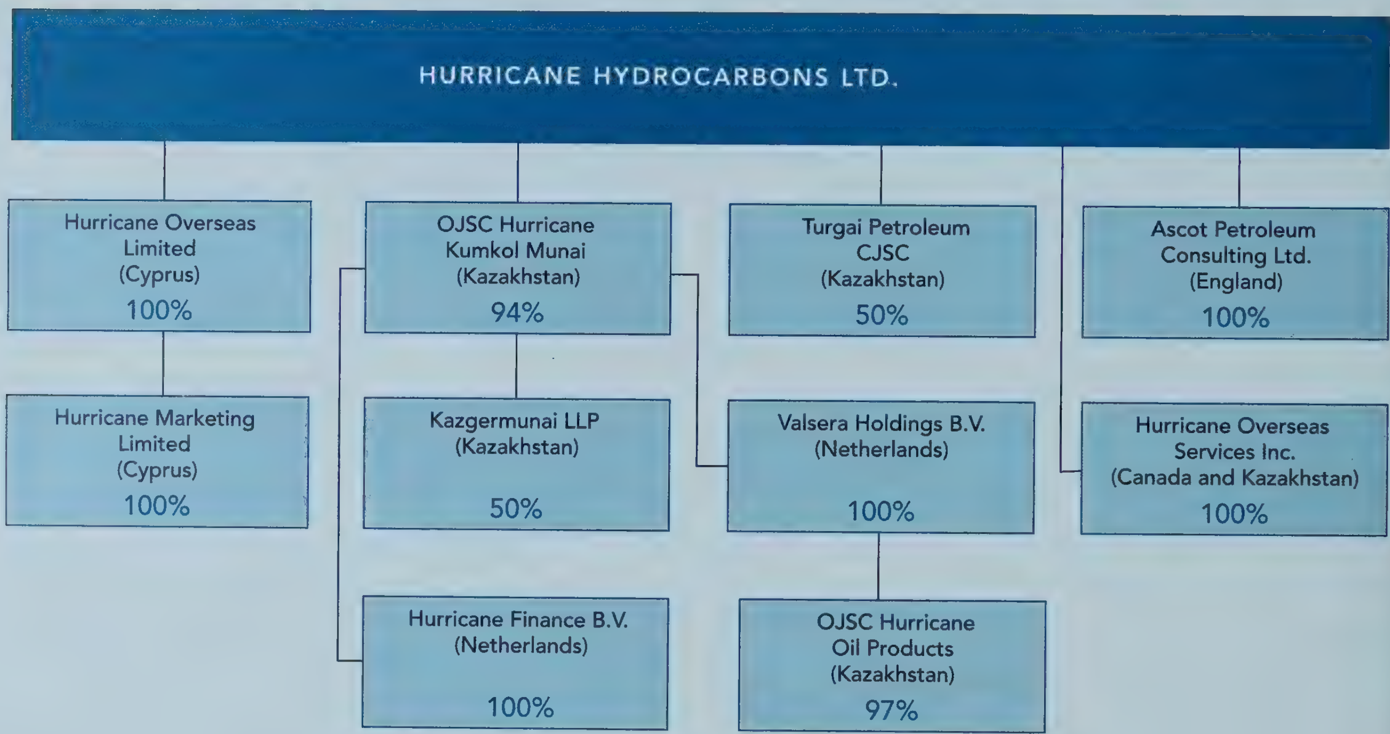
The Corporate Governance Committee has bee[illegible] preparing a Code of Business Ethics and Communi[illegible] for Hurricane, to be submitted to the Board for ap[illegible]

In addition, the Board has adopted a number of prohibi[illegible] follows:

- Hurricane is prohibited, directly or indirectly throu[illegible] subsidiary, from extending or maintaining credit or arran[illegible] for the extension of credit or renewing an extension of cred[illegible] in the form of a personal loan, to or for any of Hurrican[illegible] directors, officers or other senior members of management[illegible]
- Hurricane is prohibited from materially modifying the terms o[illegible] any existing loan, arrangement of credit or advance made whether directly or indirectly, to any of its directors, officers o[illegible] other senior members of management prior to July 30, 2002
- To ensure compliance with laws prohibiting insider trades during certain blackout periods, the Corporate Governance Committee has been charged with updating Hurricane's Share Trading and "Tipping" Policy, to be submitted to the Board for approval.

Corporate structure

The following diagram shows the principal subsidiaries of Hurricane Hydrocarbons Ltd, their respective jurisdictions of incorporation and the percentage ownership Hurricane has, directly or indirectly. The Company conducts virtually all of its operations through, and virtually all its assets are held, directly or indirectly, by Hurricane Kumkol Munai, Turgai Petroleum, Kazgermunai, Hurricane Oil Products and Hurricane Marketing Limited.



Hurricane Hydrocarbons Ltd. (Canada) is our corporate head office that directly or indirectly owns all of the other companies within the Hurricane group.

Hurricane Overseas Limited (Cyprus) is an intermediate holding company.

Hurricane Marketing Limited (Cyprus) is a crude oil marketing subsidiary of the Hurricane group.

OJSC Hurricane Kumkol Munai (Kazakhstan) is engaged in developing the Kumkol South, South Kumkol, KAM, East Kumkol, North Nurali fields and our exploration block 260 D1.

Kazgermunai LLP (Kazakhstan) is a 50% joint venture with RWE-DEA AG (25%), Erdol-Erdgas Gommern GmbH (17.5%), and International Finance Corporation (7.5%) engaged in developing the Akshabulak, Nurali and Aksai fields.

Hurricane Finance B.V. (Netherlands), a special purpose entity, is a wholly owned subsidiary of HKM.

Turgai Petroleum CJSC (Kazakhstan) is a 50% joint venture with LUKoil Ovrseas Ltd., engaged in developing the North Kumkol field.

Valsera Holdings B.V. (Netherlands) is an intermediate holding company for our refining activities.

OJSC Hurricane Oil Products (Kazakhstan) is the company in which our refining activities take place.

Ascot Petroleum Consulting Ltd. (England) provides management services to companies in the Hurricane group.

Hurricane Overseas Services Inc. (Canada and Kazakhstan) supplies international goods and services for Hurricane's Kazakhstani operations and provides personnel services to the group.

2002 Financial Statements

TABLE OF CONTENTS

Management's report

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management.

The consolidated financial statements have been prepared by management in accordance with the generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The consolidated financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a basis consistent with that in the consolidated financial statements.

Hurricane Hydrocarbons Ltd. maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that financial information is relevant, reliable and accurate and that the Corporation's assets are properly accounted for and adequately safeguarded.

The Audit Committee of the Board of Directors, composed of non-management Directors, meets regularly with management, as well as the external auditors, to discuss auditing (external, internal and joint venture), internal controls, accounting policy and financial reporting matters. The Committee reviews the consolidated financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The consolidated financial statements have been audited by TOO Deloitte & Touche, the independent auditors, in accordance with the generally accepted auditing standards on behalf of the shareholders. TOO Deloitte & Touche have full and free access to the Audit Committee.

BERNARD F. ISAUTIER
President and Chief Executive Officer

NICHOLAS H. GAY
Senior Vice President Finance and Chief Financial Officer

February 28, 2003

Independent auditors' report

To the Shareholders of Hurricane Hydrocarbons Ltd.

We have audited the consolidated balance sheets of Hurricane Hydrocarbons Ltd. as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2002, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche

TOO DELOITTE & TOUCHE
Almaty, Kazakhstan

February 28, 2003

Comments by Auditor to U.S. Readers on Canada-U.S. Reporting Differences

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Corporation's consolidated financial statements, such as the changes described in Note 2 to the consolidated financial statements. Our report to the shareholders dated February 28, 2003 is expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the Auditors' Report when the change is properly accounted for and adequately disclosed in the consolidated financial statements.

Deloitte & Touche

TOO DELOITTE & TOUCHE
Almaty, Kazakhstan

February 28, 2003

Consolidated statements of income and retained earnings (deficit)

Years ended December 31

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000
REVENUE			
Crude oil	**481,114**	252,981	301,216
Refined products	**322,037**	328,958	203,728
Processing fees	**2,661**	11,338	11,884
Interest and other income	**8,936**	9,779	6,373
	814,748	603,056	523,201
EXPENSES			
Production	**60,596**	41,231	35,302
Royalties and taxes	**58,112**	41,023	33,709
Transportation	**163,801**	50,237	25,152
Refining	**21,721**	20,562	12,583
Crude oil and refined product purchases	**73,327**	78,788	48,100
Selling	**23,253**	19,277	7,728
General and administrative	**58,879**	51,494	44,565
Interest and financing costs	**35,473**	19,530	18,708
Depletion and depreciation	**45,088**	34,254	14,680
Foreign exchange loss (gain)	**2,233**	1,453	(2,266)
	542,483	357,849	238,261
INCOME BEFORE UNUSUAL ITEMS	**272,265**	245,207	284,940
UNUSUAL ITEMS			
Arbitration settlement *(Note 22)*	**7,134**	–	–
Defense costs related to potential takeover	–	5,546	–
Waiver fees and debt restructuring costs	–	–	20,373
INCOME BEFORE INCOME TAXES	**265,131**	239,661	264,567
INCOME TAXES *(Note 17)*			
Current provision	**100,808**	79,679	100,708
Future income tax recovery	**(313)**	(11,285)	(1,051)
	100,495	68,394	99,657
NET INCOME BEFORE MINORITY INTEREST	**164,636**	171,267	164,910
MINORITY INTEREST	**2,068**	1,927	9,980
NET INCOME	**162,568**	169,340	154,930
DEFICIT, BEGINNING OF YEAR	**(66,366)**	(18,887)	(192,827)
Normal Course Issuer Bid *(Note 16 f)*	**(17,350)**	–	–
Common share dividends *(Note 15)*	–	(209,168)	–
Premium on redemption of series 5 warrants *(Note 16 b)*	–	(7,626)	–
Future income tax restatement	–	–	19,061
Preferred share dividends	**(31)**	(25)	(51)
RETAINED EARNINGS (DEFICIT), END OF YEAR	**78,821**	(66,366)	(18,887)
BASIC NET INCOME PER SHARE *(Note 18)*	**2.01**	2.12	2.19
DILUTED NET INCOME PER SHARE *(Notes 2 and 18)*	**1.93**	2.02	2.12

See accompanying notes to the consolidated financial statements.

Consolidated balance sheets

As at December 31

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	2002	2001
ASSETS		
CURRENT		
Cash and cash equivalents *(Note 7)*	**74,796**	64,812
Accounts receivable *(Note 8)*	**92,431**	52,287
Inventory *(Note 9)*	**40,529**	29,946
Prepaid expenses *(Note 10)*	**44,594**	17,319
Current portion of future income tax asset *(Note 17)*	**9,049**	5,766
	261,399	170,130
Deferred charges	**5,321**	3,408
Future income tax asset *(Note 17)*	**24,529**	29,444
Long-term investments *(Note 11)*	**–**	40,000
Property, plant and equipment *(Note 12)*	**405,479**	332,896
TOTAL ASSETS	**696,728**	575,878
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities *(Note 13)*	**96,076**	48,758
Short-term debt *(Note 14)*	**25,947**	52,557
Prepayments for crude oil and refined products	**3,540**	7,422
	125,563	108,737
Long-term debt *(Note 15)*	**266,603**	281,175
Provision for future site restoration costs	**4,167**	3,148
Future income tax liability *(Note 17)*	**17,015**	24,988
	413,348	418,048
Minority interest *(Note 4)*	**10,753**	25,599
Preferred shares of subsidiary	**83**	91
COMMITMENTS AND CONTINGENCIES *(Note 22)*		
SHAREHOLDERS' EQUITY		
Share capital *(Note 16)*	**193,723**	198,506
Retained earnings (deficit)	**78,821**	(66,366)
	272,544	132,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**696,728**	575,878

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

BERNARD ISAUTIER

Director

ROBERT KAPLAN

Director

Consolidated statements of cash flow

Years ended December 31

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	2002	2001	2000
OPERATING ACTIVITIES			
Net income	**162,568**	169,340	154,930
Items not affecting cash:			
Depletion and depreciation	**45,088**	34,254	14,680
Loss on disposition of assets	**3,360**	–	–
Accrued interest on Kazgermunai debt	**3,016**	5,679	–
Minority interest	**2,068**	1,927	9,980
Other non-cash charges	**1,007**	434	907
Future income tax	**(313)**	(11,285)	(1,051)
Cash flow	**216,794**	200,349	179,446
Changes in non-cash operating working capital items *(Note 21)*	**(34,566)**	(48,396)	31,532
Cash flow from operating activities	**182,228**	151,953	210,978
FINANCING ACTIVITIES			
Short-term debt	**(26,610)**	51,557	1,000
Common share dividends *(Note 15)*	**–**	(31,830)	–
Redemption of series 5 warrants *(Note 16 b)*	**–**	(9,425)	–
Redemption of series 5 corresponding convertible securities *(Note 16 c)*	**–**	(3,878)	–
Purchase of common shares *(Note 16 f)*	**(23,549)**	–	–
Long-term debt *(Note 21)*	**(17,658)**	(8,258)	(173,860)
Deferred charges paid	**(2,850)**	(2,520)	–
Change in long term receivables	**–**	–	1,393
Proceeds from issue of share capital, net of share issuance costs	**1,417**	685	26,743
Preferred share dividends	**(31)**	(25)	(51)
Cash flow used in financing activities	**(69,281)**	(3,694)	(144,775)
INVESTING ACTIVITIES			
Capital expenditures	**(140,102)**	(102,732)	(16,977)
Long-term investment *(Note 11)*	**40,000**	(40,000)	–
Acquisition of HOP, net of cash acquired *(Note 4)*	**(2,853)**	–	(37,229)
Cash acquired on proportionate consolidation of Kazgermunai *(Note 6)*	**–**	–	16,638
Purchase of preferred shares of subsidiary	**(8)**	(13)	(85)
Cash flow used in investing activities	**(102,963)**	(142,745)	(37,653)
INCREASE IN CASH	**9,984**	5,514	28,550
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**64,812**	59,298	30,748
CASH AND CASH EQUIVALENTS , END OF YEAR	**74,796**	64,812	59,298

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

(EXPRESSED IN UNITED STATES DOLLARS, TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED)

NOTE 1

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

Hurricane Hydrocarbons Ltd. ("Hurricane" or the "Corporation") is an independent integrated oil and gas corporation, operating in the Republic of Kazakhstan, engaged in the acquisition, exploration, development and production of oil and gas, refining of oil, and the sale of oil and oil products.

The consolidated financial statements of Hurricane have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation, which is incorporated under the laws of Alberta, together with the accounts of its subsidiaries which are incorporated under the laws of Canada, Cyprus, England, Netherlands and Kazakhstan. Intercompany transactions eliminate upon consolidation.

On August 28, 1996, the Corporation entered into a Share Sale-Purchase Agreement with the Republic of Kazakhstan for the purchase of 100% of the issued common shares of Yuzhneftegas, a state owned joint stock company, later renamed to OJSC Hurricane Kumkol Munai ("HKM"), operating in the South Turgai basin, located in South Central Kazakhstan.

As more fully explained in Note 4, effective March 31, 2000, the Corporation acquired 88.4% of the common shares of OJSC Shymkentnefteorgsyntez, later renamed to OJSC Hurricane Oil Products ("HOP"). Accordingly, the consolidated financial statements for the year ended December 31, 2000, as presented, include the operations of HOP as at and for the nine months ended December 31, 2000.

These consolidated financial statements have been reconciled to U.S. Generally Accepted Accounting Principles ("GAAP") in Note 24.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

With respect to accounting for oil and gas properties, amounts recorded for depreciation, depletion, future site restoration and amounts used for ceiling test calculations, are based on estimates of oil and natural gas reserves. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material.

Joint ventures

As more fully explained in Note 6, certain of Hurricane's activities are conducted jointly with others through incorporated joint ventures. Accordingly, these consolidated financial statements reflect Hurricane's proportionate interest in such activities.

Foreign currency translation

Foreign currency amounts, including those of foreign subsidiaries, are expressed in United States dollars using the temporal method as follows:

a) Monetary assets and liabilities – at the rate of exchange in effect at year end;

b) Non-monetary assets and liabilities – at historical rates; and

c) Revenues and expenses – at the average exchange rates during the period, except for provisions for depletion and depreciation, which are translated on the same basis as the related assets.

Gains or losses resulting from such conversions are charged to operations.

Cash and cash equivalents

Cash and cash equivalents include term deposits with original maturity terms not exceeding 90 days.

Inventories

Crude oil and oil products are valued at the lower of average cost and net realizable value. Materials and supplies are valued at the lower of average cost and replacement cost. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, which have been incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Deferred charges

Costs related to the issuance of long-term debt are deferred and amortized over the term of the respective debt instrument on a straight-line basis.

Property, plant and equipment

a) Petroleum and natural gas properties

Hurricane follows the full cost method of accounting for oil and gas operations whereby all exploration and development expenditures are capitalized. All of Hurricane's petroleum and natural gas properties are within one cost centre, Kazakhstan. Capitalized expenditures include land acquisition costs, geological and geophysical expenses, costs of drilling both productive and nonproductive wells, gathering and production facilities and equipment and overhead expenses related to exploration and development activities. Proceeds from sales of oil and gas properties are recorded as reductions of capitalized costs, unless the cost centre's depreciation and depletion rate would change by a factor of 20% or more, whereupon gains or losses are recognized as income. Maintenance and repair costs are expensed as incurred, while improvements and major renovations to assets are capitalized.

Costs accumulated within each cost centre, including the provision for future site restoration expenditures, are depreciated and depleted using the unit-of-production method based upon estimated proved developed reserves before royalties. Significant development projects and expenditures on exploration properties are excluded from the depletion calculation prior to assessment of the existence of proved reserves. Costs for unproved properties and major developments are evaluated periodically for impairment.

Capitalized costs are subject to a cost recovery test (the "ceiling test"). Under this test, costs accumulated are limited to the estimate of future undiscounted net revenues from production of estimated proved reserves at prices and costs in effect at the year end, plus the cost of major developments and unproved developed properties less any impairment of such costs, and less estimated future interest expense, administrative costs, future site restoration costs and income taxes attributable to those operations. If the net carrying cost exceeds the ultimate recoverable amount as computed under the test, a write down is recorded.

b) Refining facilities and properties

The refinery assets have been recorded as at March 31, 2000 using the ascribed value assigned to such assets resulting from accounting for the acquisition of HOP on that date, under the purchase method of accounting for business combinations. Depreciation is recorded from April 1, 2000 based on the remaining estimated useful lives of the respective assets or categories of assets.

Maintenance and repairs, including minor renewals and improvements are charged to income as incurred. The cost of major renovations and improvements, which increase useful lives, are capitalized. Direct costs incurred in the construction of fixed assets, including labour, materials and supplies are capitalized.

c) Depreciation of refining facilities

Depreciation is calculated on the straight-line method using the following useful economic lives:

Buildings, warehouses and storage facilities	10 – 20 years
Process machinery and equipment	5 – 20 years
Transport equipment	5 – 30 years
Other tangible fixed assets	3 – 15 years

d) Depreciation of other property, plant and equipment

Depreciation is provided for other assets using the declining balance method at the rate of 20% per annum.

Site restoration

Estimated future site restoration costs are provided for on the unit of production basis. Costs are based on engineering estimates of the anticipated method and extent of site restoration, in accordance with current legislation, industry practices and costs. Provision is being made for site restoration costs, where they are probable and can be reasonably estimated.

Revenue recognition

Sales of petroleum and refined products are recorded in the period in which the title to the petroleum or refined product transfers to the customer. Produced but unsold products are recorded as inventory until sold. In the case of Free Carirer ("FCA") sales, title to the crude oil passes at our refinery. The Corporation records revenue based on a provisional Brent price at the time of delivery, then marks to market at month end to reflect increases or decreases in prevailing Brent prices and adjusts the final price, if necessary, at the bill of lading date according to the contract terms.

Derivative commodity instruments

The Corporation utilizes derivative instruments to manage the Corporation's exposure to fluctuations in the price of crude oil as described in Note 19.

Hedge accounting is used when there is a high degree of correlation between movements in the fair value of the derivative instrument and the item designated as being hedged. Gains and losses are recorded in the same period as the hedged item and are recorded in the same manner as the hedged item in the Consolidated Statement of Income. If correlation ceases, hedge accounting is terminated and changes in the market value of the derivative instruments are recognized in the period of change.

Stock-based compensation

The Corporation has a stock option plan as described in Note 16. The Corporation uses the intrinsic value method in accounting for stock options. Under this method the Corporation recognizes no compensation expense, as the exercise price of the option is equal to the market price of the stock at the time of grant.

Income taxes

Income taxes are calculated using the liability method of tax accounting. Under this method, future income tax assets and liabilities are computed based on temporary differences between the tax basis and carrying amount on the balance sheet for assets and liabilities. Future income tax liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Comparative figures

The presentation of certain amounts for previous years has been changed to conform with the presentation adopted for the current year.

NOTE 2

CHANGES IN ACCOUNTING STANDARDS

Effective January 1, 2001, the Corporation adopted the new recommendation of the Canadian Institute of Chartered Accountants ("CICA") with respect to net income per share. Under this new standard, the treasury stock method is used to determine the dilutive effect of all potential common share issues. Only "in the money" dilutive instruments impact the calculation of diluted net income per share. The comparative diluted net income per share amounts for the year ended December 31, 2000 have been restated, as follows, to give effect to the new recommendation.

	Reported	As Restated
Diluted net income per share	$1.92	$2.12

Effective January 1, 2002 the Corporation adopted the new recommendation of the CICA with respect to stock-based compensation. This new standard requires the disclosure of the impact on net income and net income per share of using the fair value method of accounting for stock options issued to employees on or after January 1, 2002 (Note 16 g).

Effective January 1, 2002 the Corporation adopted the amended recommendation of the CICA with respect to accounting for foreign currency translation. All exchange gains and losses on long-term monetary items that do not qualify for hedge accounting are recognized in income. As at December 31, 2002 the adoption of this amended standard had no impact on the consolidated financial statements.

NOTE 3

COMPANIES CREDITORS ARRANGEMENT ACT

On May 14, 1999, Hurricane Hydrocarbons Ltd. and a subsidiary Hurricane Overseas Services Inc. applied for and obtained an order from the Court of Queen's Bench of Alberta (the "Court") under the Companies' Creditors Arrangement Act. On February 28, 2000, the creditors of the Corporation approved and the Court sanctioned the Fourth Amended and Restated Plan of Compromise and Arrangement ("the Plan").

The Plan was implemented on March 31, 2000; thereby releasing the Corporation from the protection of the Companies' Creditors Arrangement Act. Pursuant to the Plan the Corporation has made the following payments to the holders of the U.S. and Canadian Notes:

a) On March 31, 2000, $87.0 million, comprised of $23.2 million for outstanding interest and liquidated damages payments, $13.6 million in waiver fees and $50.2 million of principal repayments;

b) On June 30, 2000, $30.2 million, comprised of $15.0 million of principal, a $10.0 million prepayment of principal and $5.2 million in interest;

c) On September 30, 2000, $54.2 million, comprised of $19.0 million of principal, a $31.0 million prepayment of principal and $4.2 million in interest;

d) On December 31, 2000, $32.2 million, comprised of $19.0 million of principal, an $11.0 million prepayment of principal and $2.2 million in interest;

e) On March 31, 2001, $1.0 million in interest;

f) On June 21, 2001, $24.7 million comprised of $23.8 million of principal and $0.9 million in interest. The U.S. and Canadian note holders were fully repaid as of this date.

In addition, creditors with undisputed claims amounting to $3.3 million plus interest have been paid in full. The plan also contained provisions for amounts that may become payable as a result of settlement agreements or the judgment of a court relating to disputed claims. An arbitration decision was received relating to one of the claims filed and the Corporation has paid $7.1 million for full settlement of the claim (Note 22).

NOTE 4

ACQUISITION OF OJSC HURRICANE OIL PRODUCTS ("HOP")

On March 31, 2000 the Corporation completed the HOP acquisition, acquiring 88.4% of the issued and outstanding common shares of HOP, an open joint stock company in Kazakhstan listed on the Kazakhstan Stock Exchange, for initial consideration of $118.0 million. During the year ended December 31, 2000, the Corporation acquired a further 3.1% of the issued common shares of HOP for further cash consideration of $3.8 million. During the year ended December 31, 2001, pursuant to an agreement with the vendor of HOP, the Corporation cancelled 153,657 of the shares issued for the acquisition of HOP for $0.4 million. During the year ended December 31, 2002, the Corporation acquired a further 5.6% of the issued common shares of HOP for further cash consideration of $2.9 million. HOP is the owner and operator of an oil refinery based in Shymkent, located in South Central Kazakhstan through which the Corporation processes crude oil.

The total consideration for the acquisition of HOP prior to the additional purchase of 5.6% in 2002 consists of:

Cash consideration	48,846
Issuance of 19,430,543 common shares of the Corporation from treasury	57,082
Cancellation of 153,657 shares (Note 16 e)	(440)
Issuance of 4,067,381 special warrants convertible into 4,067,381 common shares with no additional payment, on the same basis as the special warrants	11,949
Issuance of corresponding convertible securities in quantities, which allow the holder to exercise such corresponding options and warrants which Hurricane, has outstanding, such that the holder may maintain its percentage ownership of the shares outstanding. The corresponding convertible securities are recorded at their fair market value	2,910
Costs of combination	1,012
	121,359

The acquisition of HOP was accounted for under the purchase method with an effective date of March 31, 2000. The results of the operations of the acquired business are included in the accompanying consolidated financial statements since the date of acquisition.

Hurricane's total purchase price of $121.4 million was assigned to the net assets acquired as follows:

Working capital, including cash of $12.6 million	46,176
Fixed assets	110,099
Minority interest	(13,744)
Future income tax liability	(21,172)
Aggregate consideration	121,359

The acquisition of an additional 5.6% of the issued common stock of HOP for $2.9 million during the year ended December 31, 2002 was accounted for as follows:

Minority interest purchased	16,914
Reduction of fixed assets	(20,087)
Reduction of future income tax liability	6,026
Aggregate consideration	2,853

In addition the Corporation has assumed the rights and obligations under the HOP privatization agreement, whereby the Government of Kazakhstan privatized HOP. Under this agreement, the Corporation is required to invest, or cause HOP to invest, the tenge equivalent of $150.0 million in capital expenditures or investments by December 31, 2001.

The Corporation believes it has met this commitment. The government of Kazakhstan is disputing the Corporation's assertion that it has met its commitment with respect to HOP. The Corporation is currently engaged in discussions with representatives of the government of Kazakhstan concerning the level of capital expenditures or commitments made as at December 31, 2001. If it is established that the Corporation has not met its commitment within the agreed time frame, the Corporation may be required, under the terms of the agreement, to pay a penalty of 15% of the amount not invested.

NOTE 5

SEGMENTED INFORMATION

Following the acquisition of HOP in 2000, the Corporation became an integrated oil and gas company. All of the commercial activity of the Corporation is concentrated in the Republic of Kazakhstan in Central Asia.

On a primary basis the business segments are:

- Upstream comprising the exploration, development and production of crude oil and natural gas.
- Downstream comprising refining and the marketing of refined products and the management of the marketing of crude oil.

The accounting policies of the operating segments are the same as those described in Note 1. Identifiable assets are those used in the operation of the segment.

The consolidated income tax impact of non-deductible interest expense of $7.5 million for the year ended December 31, 2002 ($3.2 million – 2001 and $5.4 million – 2000) has been allocated to Corporate.

Year ended December 31, 2002	Upstream	Downstream	Corporate	Consolidated
REVENUE				
Crude oil	481,114	–	–	481,114
Refined products	93,896	228,141	–	322,037
Processing fees	–	2,661	–	2,661
Interest and other income	5,892	979	2,065	8,936
	580,902	231,781	2,065	814,748
EXPENSES				
Production	60,596	–	–	60,596
Royalties and taxes	57,535	577	–	58,112
Transportation	163,791	10	–	163,801
Refining	4,197	17,524	–	21,721
Crude oil and refined product purchases	36,588	36,739	–	73,327
Selling	11,493	11,760	–	23,253
General and administrative	37,093	17,216	4,570	58,879
Interest and financing costs	9,023	1,514	24,936	35,473
Depletion and depreciation	31,647	13,347	94	45,088
Foreign exchange loss	1,024	995	214	2,233
	412,987	99,682	29,814	542,483
INCOME (LOSS) BEFORE UNUSUAL ITEMS	167,915	132,099	(27,749)	272,265
UNUSUAL ITEM				
Arbitration settlement	7,134	–	–	7,134
INCOME BEFORE INCOME TAXES	160,781	132,099	(27,749)	265,131
INCOME TAXES				
Current provision	64,500	26,463	9,845	100,808
Future income tax	(11,039)	10,726	–	(313)
	53,461	37,189	9,845	100,495
MINORITY INTEREST	–	2,068	–	2,068
NET INCOME	107,320	92,842	(37,594)	162,568
INTERSEGMENT REVENUE	112,754	37,744	–	–

Included in Upstream crude oil revenue are sales to one customer in the amount of $103.0 million.

As at December 31, 2002	Upstream	Downstream	Corporate	Consolidated
Total assets	493,920	169,071	33,737	696,728
Total liabilities	148,247	36,859	228,242	413,348
Capital expenditures	131,875	8,227	–	140,102

Year ended December 31, 2001	Upstream	Downstream	Corporate	Consolidated
REVENUE				
Crude oil	250,947	2,034	–	252,981
Refined products	15,656	313,302	–	328,958
Processing fees	–	11,338	–	11,338
Interest and other income	9,126	91	562	9,779
	275,729	326,765	562	603,056
EXPENSES				
Production	41,231	–	–	41,231
Royalties and taxes	41,023	–	–	41,023
Transportation	50,237	–	–	50,237
Refining	–	20,562	–	20,562
Crude oil and refined product purchases	–	78,788	–	78,788
Selling	5,621	13,656	–	19,277
General and administrative	28,024	17,906	5,564	51,494
Interest and financing costs	7,815	1,029	10,686	19,530
Depletion and depreciation	24,116	9,764	374	34,254
Foreign exchange loss (gain)	342	1,478	(367)	1,453
	198,409	143,183	16,257	357,849
INCOME (LOSS) BEFORE UNUSUAL ITEMS	77,320	183,582	(15,695)	245,207
UNUSUAL ITEM				
Defense costs related to potential takeover	–	–	5,546	5,546
INCOME (LOSS) BEFORE INCOME TAXES	77,320	183,582	(21,241)	239,661
INCOME TAXES				
Current provision	57,589	16,299	5,791	79,679
Future income tax	(38,730)	27,445	–	(11,285)
	18,859	43,744	5,791	68,394
MINORITY INTEREST	–	1,927	–	1,927
NET INCOME (LOSS)	58,461	137,911	(27,032)	169,340
INTERSEGMENT REVENUE	170,911	22,942	–	–

Included in Upstream crude oil revenue are sales to one customer in the amount of $99.5 million.

As at December 31, 2001	Upstream	Downstream	Corporate	Consolidated
Total assets	321,685	215,166	39,027	575,878
Total liabilities	163,263	50,288	204,497	418,048
Capital expenditures	100,259	9,332	616	110,207

Year ended December 31, 2000	Upstream	Downstream	Corporate	Consolidated
REVENUE				
Crude oil	115,791	185,425	–	301,216
Refined products	–	203,728	–	203,728
Processing fees	–	11,884	–	11,884
Interest and other income	5,810	563	–	6,373
	121,601	401,600	–	523,201
EXPENSES				
Production	35,302	–	–	35,302
Royalties and taxes	33,709	–	–	33,709
Transportation	25,152	–	–	25,152
Refining	–	12,583	–	12,583
Crude oil and refined product purchases	4,242	43,858	–	48,100
Selling	–	7,728	–	7,728
General and administrative	25,497	14,200	4,868	44,565
Interest and financing costs	193	580	17,935	18,708
Depletion and depreciation	7,707	6,973	–	14,680
Foreign exchange loss (gain)	(3,152)	884	2	(2,266)
	128,650	86,806	22,805	238,261
INCOME (LOSS) BEFORE UNUSUAL ITEMS	(7,049)	314,794	(22,805)	284,940
UNUSUAL ITEM				
Waiver fees and debt restructuring costs	–	–	20,373	20,373
INCOME (LOSS) BEFORE INCOME TAXES	(7,049)	314,794	(43,178)	264,567
INCOME TAXES				
Current provision	50,196	41,422	9,090	100,708
Future income tax	(58,335)	57,284	–	(1,051)
	(8,139)	98,706	9,090	99,657
MINORITY INTEREST	–	9,980	–	9,980
NET INCOME (LOSS)	1,090	206,108	(52,268)	154,930
INTERSEGMENT REVENUE	201,091	530	–	–

There were no sales to an individual customer in excess of 10% of consolidated revenue.

NOTE 6

JOINT VENTURES

The Corporation has the following interests in two joint ventures:

a) a 50% equity shareholding with equivalent voting power in Turgai Petroleum CJSC ("Turgai"), formerly Kumkol Lukoil CJSC, which operates the northern part of the Kumkol field in Kazakhstan.

b) a 50% equity shareholding with equivalent voting power in LLP Kazgermunai ("Kazgermunai"), which operates three oil fields in Kazakhstan: Akshabulak, Nurali and Aksai. From November 28, 2000 Hurricane assumed a more active role in the management of Kazgermunai. As a result, the Corporation commenced accounting for its interest by way of proportionate consolidation from that date.

As at November 28, 2000 the Corporation's share of the net assets of Kazgermunai was as follows:

Working capital, including cash of $16.6 million	18,171
Fixed assets	63,172
Long-term debt	(81,343)
Total net assets	–

Kazgermunai is restricted from paying dividends until all outstanding loans have been repaid in full. The long-term debt is non-recourse to the Corporation (as more fully disclosed in Note 15).

The Corporation's interests in these joint ventures have been accounted for using the proportionate consolidation method. Under this method, the Corporation's balance sheets, statements of income, retained earnings and deficit and cash flow includes the Corporation's share of income, expenses, assets, liabilities and cash flows of these joint ventures.

The following amounts are included in the Corporation's consolidated financial statements as a result of the proportionate consolidation of its joint ventures and before consolidation eliminations:

2002	Turgai	Kazgermunai	Total
Cash	**307**	**2,854**	**3,161**
Current assets, excluding cash	**14,248**	**14,743**	**28,991**
Property, plant and equipment, net	**41,602**	**58,853**	**100,455**
Current liabilities	**24,909**	**4,798**	**29,707**
Long-term debt	**–**	**45,231**	**45,231**
Revenue	**72,938**	**48,284**	**121,222**
Expenses	**47,241**	**37,431**	**84,672**
Net income	**25,697**	**10,853**	**36,550**
Cash flow from operating activities	**25,420**	**19,264**	**44,684**
Cash flow used in financing activities	**–**	**(15,837)**	**(15,837)**
Cash flow used in investing activities	**(26,613)**	**(12,089)**	**(38,702)**

Revenue for the year ended December 31, 2002 includes $55.0 million of crude oil sales made by Turgai and $6.3 million of crude oil sales made by Kazgermunai to Downstream. These amounts were eliminated on consolidation.

2001	Turgai	Kazgermunai	Total
Cash	1,500	11,516	13,016
Current assets, excluding cash	7,426	12,728	20,154
Property, plant and equipment, net	19,394	55,031	74,425
Current liabilities	16,899	5,598	22,497
Long-term debt	–	61,068	61,068
Revenue	67,819	49,803	117,622
Expenses	31,758	39,092	70,850
Net income	36,061	10,711	46,772
Cash flow from operating activities	43,748	18,227	61,975
Cash flow used in financing activities	(50,000)	(20,980)	(70,980)
Cash flow used in investing activities	(13,330)	(4,386)	(17,716)

Revenue for the year ended December 31, 2001 includes $52.9 million of crude oil sales made by Turgai and $2.6 million of crude oil sales made by Kazgermunai to Downstream. These amounts were eliminated on consolidation.

2000	Turgai	Kazgermunai	Total
Cash	21,082	18,655	39,737
Current assets, excluding cash	3,294	8,375	11,669
Property, plant and equipment, net	8,372	62,405	70,777
Current liabilities	7,545	5,315	12,860
Long-term debt	–	82,048	82,048
Revenue	50,686	3,884	54,570
Expenses	25,931	2,370	28,301
Net income	24,755	1,514	26,269
Cash flow from operating activities	21,397	2,017	23,414
Cash flow used in financing activities	–	–	–
Cash flow used in investing activities	(4,493)	–	(4,493)

Revenue for the year ended December 31, 2000 includes $17.5 million of crude oil sales made by Turgai to Downstream. These amounts were eliminated on consolidation.

NOTE 7

CASH AND CASH EQUIVALENTS

As at December 31, 2002 cash and cash equivalents included $5.7 million of cash dedicated to a margin account for the hedging program (Note 19), which was subsequently released when the Corporation entered into a new facility agreement (Note 23). There were no restrictions on cash as at December 31, 2001.

NOTE 8

ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2002	2001
Trade	**61,085**	22,724
Value added tax recoverable	**1,718**	10,153
Due from Turgai	**17,357**	9,206
Other	**12,271**	10,204
	92,431	52,287

NOTE 9

INVENTORY

Inventory consists of the following:

	2002	2001
Refined products	**6,458**	11,348
Crude oil purchased	**7,413**	–
Crude oil produced	**7,837**	2,584
Materials and supplies	**18,821**	16,014
	40,529	29,946

NOTE 10

PREPAID EXPENSES

Prepaid expenses consist of the following:

	2002	2001
Advances for services and equipment	**23,722**	14,788
Prepayment of transportation for crude oil sales	**17,210**	1,104
Prepayment for pipeline tariff	**3,662**	1,427
	44,594	17,319

NOTE 11

LONG-TERM INVESTMENTS

During the year ended December 31, 2001, the Corporation had entered into a Sale and Purchase Agreement to acquire a 49.9% interest, with equal management rights in a company, which had a 1.75% interest in the Caspian Pipeline Consortium. The first payment of $40.0 million was made on December 28th, 2001.

Conditions set out in the Sale and Purchase agreement could not be met by the deadline of June 13, 2002 and the agreement was terminated. The first payment was refunded in full.

NOTE 12

PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
2002			
Oil and gas	**596,110**	**305,568**	**290,542**
Refining	**138,532**	**27,706**	**110,826**
	734,642	**333,274**	**401,368**
Other	**7,108**	**2,997**	**4,111**
	741,750	**336,271**	**405,479**
2001			
Oil and gas	466,732	274,955	191,777
Refining	153,798	16,939	136,859
	620,530	291,894	328,636
Other	7,108	2,848	4,260
	627,638	294,742	332,896

Excluded from the depletable base of oil and gas properties are undeveloped properties of $17.0 million (December 31, 2001 – $32.3 million) and work in progress of $50.4 million (December 31, 2001 – nil).

NOTE 13

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2002	2001
Trade	**67,167**	38,258
Royalties	**15,929**	7,312
Income taxes	**4,729**	1,823
Other	**8,251**	1,365
	96,076	48,758

NOTE 14

SHORT-TERM DEBT

	2002	2001
Working capital facilities	**14,947**	42,557
Current portion of term facilities	–	4,000
Joint venture loan payable	**11,000**	6,000
	25,947	52,557

The working capital facilities are revolving, for terms of one to eight years, are secured and have interest rates ranging from Libor plus 3.5% per annum to 14% per annum.

NOTE 15

LONG-TERM DEBT

Long-term debt is represented by:

	2002	2001
12% Notes	**208,210**	190,880
Kazgermunai debt	**45,231**	61,068
Term facility	–	16,000
HOP bonds	**13,162**	13,227
	266,603	281,175

12% Notes

The Corporation declared a special dividend of C$4.00 per share to the shareholders of record as of August 2, 2001 in the form of $208,610,000, 12% Notes ("Notes") issued on August 3, due in 2006. These Notes are unsecured, bear interest at the rate of 12% per annum payable semi-annually on August 3 and February 3 and mature on August 4, 2006. The Notes are redeemable at the Corporation's option in whole or in part on the interest payment dates at 102% up to and including February 3, 2003, at 101% up to and including February 3, 2004 and at 100% thereafter. Each holder of the Notes has the right, upon the occurrence of a change in control, to require the Company to repurchase all or any part (equal to $10,000 or an integral multiple thereof) of the Notes at a price of 101% of the aggregate principal plus accrued and unpaid interest.

Upon issuance, the Corporation paid fractional interests and withholding taxes of $31.8 million in cash and retained a corresponding amount of the Notes. The Corporation repurchased $0.9 million of these Notes on the market in 2001 and subsequently sold all of the Notes except for $0.4 million of the Notes, which were cancelled. On February 3, 2003 the Notes were redeemed (Note 23).

The unamortized issue costs related to the Notes of $1.4 million as at December 31, 2002 ($1.8 million as at December 31, 2001), and the discount on sale of Notes of $1.1 million as at December 31, 2002 ($0.9 million as at December 31, 2001) are recorded as deferred charges and are amortized over the term of the Notes.

Kazgermunai debt

The Kazgermunai debt is non-recourse to the Corporation. The amounts set out below represent the 50% of Kazgermunai's total debt, which has been included in the consolidated financial statements on a proportionate consolidation basis (see Note 6).

	2002	2001
Kazgermunai senior debt	**9,072**	27,319
Kazgermunai subordinated debt	**24,000**	22,181
Loan from government of Kazakhstan	**12,159**	11,568
	45,231	61,068

Kazgermunai senior debt

The senior debt bears interest at LIBOR plus 3% and is unsecured. Accrued interest is added to the principal on a semi-annual basis.

Amounts repaid	**2002**	2001
Principal repaid	**17,506**	25,000
Interest repaid	**1,347**	1,659
	18,853	26,659

Kazgermunai subordinated debt

The subordinated debt bears interest at LIBOR plus 3% and is unsecured. Accrued interest is added to the principal on a semi-annual basis. Repayment of the debt will begin after full repayment of the senior debt.

Loan from government of Kazakhstan

The loan from the government of Kazakhstan relates to exploration and development work performed by Yuzneftegas, a state owned enterprise that was purchased by Hurricane Kumkol Limited in 1996 and which subsequently had its name changed to OJSC Hurricane Kumkol Munai, on the Akshabulak, Nurali and Aksai fields prior to the formation of Kazgermunai. The loan bears interest at LIBOR plus 3% and is unsecured. Accrued interest is added to the principal on a semi-annual basis. Repayment of the debt will begin after full repayment of the senior debt.

Kazgermunai is restricted from paying dividends until all outstanding loans have been repaid in full.

Term facility

During the year ended December 31, 2001 the Corporation entered into a secured, term facility for $60 million. The facility was to be repaid in fifteen equal monthly instalments commencing October 2002 and bore interest at LIBOR plus 3.5%. As at December 31, 2002 the Corporation had repaid this facility in full.

Subsequent to December 31, 2002, the Corporation entered into a new term facility (Note 23).

HOP bonds

On March 20, 2001 HOP registered 250,000 unsecured bonds (par value $100) in the amount of $25 million with the National Securities Commission of the Republic of Kazakhstan (the "HOP bonds"). The HOP bonds have a three-year maturity, are due on March 31, 2004 and bear a coupon rate of 10% per annum. The HOP bonds are listed on the Kazakh Stock Exchange.

As at December 31, 2002 134,800 bonds had been issued for consideration of $13.2 million.

The HOP bonds contain certain covenants including a limitation on indebtedness.

Subsequent to December 31, 2002, the Corporation issued the remaining HOP bonds (Note 23).

Repayment

Principal repayments due for each of the next five years and in total are as follows:

	2002	2003	2004	2005	2006	Thereafter	Total
12% Notes	**–**	–	–	–	208,210	–	208,210
HOP bonds	**–**	–	13,162	–	–	–	13,162
Kazgermunai	**–**	–	–	–	–	45,231	45,231
	–	–	13,162	–	208,210	45,231	266,603

The Kazgermunai debt does not have fixed repayment terms. On February 3, 2003, the 12% Notes were redeemed in full.

Interest Expense

	2002	2001	2000
Interest on long-term debt	**29,897**	15,870	118
Interest on short-term debt	**5,576**	3,660	18,590
	35,473	19,530	18,708

NOTE 16

SHARE CAPITAL

a) Authorized share capital consists of an unlimited number of Class A common shares, and an unlimited number of Class B redeemable preferred shares, issuable in series.

Issued Class A common shares:

	December 31, 2002		December 31, 2001	
	Number	**Amount**	Number	Amount
Balance, beginning of year	**80,103,784**	**198,506**	79,808,673	203,930
Shares repurchased and cancelled pursuant to Normal Course Issuer Bid (f)	**(2,531,870)**	**(6,199)**	–	–
Stock options exercised for cash	**1,267,525**	**1,314**	353,550	589
Corresponding convertible securities, converted (d)	**125,756**	**113**	93,018	96
Series 5 warrants converted (b)	**–**	**–**	2,200	8
Redemption of Series 5 warrants (b)	**–**	**–**	–	(1,799)
Redemption of corresponding convertible securities (c)	**–**	**–**	–	(3,878)
Cancelled shares (e)	**(8,320)**	**(11)**	(153,657)	(440)
Balance, end of year	**78,956,875**	**193,723**	80,103,784	198,506

b) On March 26, 1997, Hurricane issued C$110.0 million (U.S.$80.0 million) of Special Warrants under a Special Warrant Indenture (the "Indenture"). Under the terms of the Indenture, each Special Warrant was exercisable by the holder thereof, at no additional cost, into one unit, with each unit comprised of one C$1,000 principal amount Note and 45 Series 5 Warrants. C$2.5 million (U.S.$1.8 million) of the proceeds were allocated to the Series 5 Warrants. Each Series 5 Warrant entitled the holder to purchase one common share of the Corporation at a price of C$6.25 until March 26, 2002. As of July 27, 1997, all of the Special Warrants were exercised or were deemed to have been exercised; accordingly, 4,950,000 Series 5 Warrants were issued. No Series 5 warrants were outstanding at December 31, 2002.

The Corporation reached an agreement with the Series 5 warrant holders to redeem 4,943,020 of the outstanding Series 5 warrants on February 23, 2001 at C$2.90 per warrant for a total consideration of $9.4 million. $1.8 million was recorded as a reduction of share capital based upon the average cost of each warrant at issuance, and the remaining $7.6 million was recorded as an increase in the Corporation's deficit. On February 23, 2001, 2,200 Series 5 warrants were exercised and as at December 31, 2001 there were no outstanding Series 5 warrants.

c) Simultaneously, the corresponding convertible securities associated with the Series 5 warrants were redeemed under the same terms as the Series 5 warrants at C$2.90 per corresponding convertible security for the total consideration of $3.9 million. On February 23, 2001, 906 of these corresponding convertible securities were exercised and as at December 31, 2001 there were no outstanding corresponding convertible securities associated with the Series 5 warrants.

d) On March 31, 2000, also in connection with the acquisition of HOP, the Corporation issued corresponding convertible securities as follows:

Options to purchase 1,105,753 Common Shares of the Corporation at prices and terms which are identical to those options outstanding at March 31, 2000, but in each case the number of options equals 41.16% of the outstanding options. This percentage was changed to 40.80% of the outstanding options granted prior to March 31, 2000. As at December 31, 2002, there were 66,193 outstanding corresponding convertible securities.

e) The Corporation cancelled 8,320 shares in 2002 to correct the number of shares issued on the exercise of stock options in 2001. The Corporation cancelled 153,657 of the shares issued for the acquisition of HOP in 2001 to correct an error made upon issuance.

f) During the third quarter of 2002, the Corporation adopted a normal course issuer bid to repurchase, for cancellation, up to 5,253,238 common shares during the period from August 7, 2002 to August 6, 2003. As at December 31, 2002, the Corporation had purchased and cancelled 2,531,870 shares at an average price of C$14.57 per share. The excess of cost over the book value for the shares purchased was applied to retained earnings.

g) The Corporation maintains an incentive stock option plan ("plan") under which directors, officers and key personnel may be granted options to purchase class A common shares of the Corporation. The Corporation has reserved 8,076,050 class A common shares for issuance upon the exercise of options granted under the terms of the plan (2001- 8,776,500, 2000 – 7,598,000). The Board of Directors determines the exercise price of each option, provided that no option shall be granted with an exercise price at a discount to market. No compensation expense is recognized in accordance with the Corporation's accounting policies. The vesting periods established under the Corporation's stock option plan and the term of the options are set by the board of directors, subject to a maximum term for any option of 10 years. Granted options have a vesting period of four to five years, except for options granted to non-executive directors, which vest immediately.

A summary of the status of the Corporation's stock option plan as of December 31, 2002 and the changes during the years ended December 31, 2000, 2001 and 2002 is presented below (expressed in Canadian dollars):

	Options	Weighted Average Exercise Price
Outstanding at December 31, 1999	2,861,500	2.94
Granted	3,990,000	3.31
Granted under corresponding securities arrangement	1,105,763	2.16
Exercised	(2,447,610)	1.29
Forfeited	(823,948)	3.77
Outstanding at December 31, 2000	4,685,705	3.15
Granted	1,644,243	9.71
Exercised	(446,568)	2.28
Forfeited	(146,500)	7.89
Outstanding at December 31, 2001	5,736,880	3.07
Granted	605,000	14.65
Exercised	(1,393,281)	1.09
Forfeited	(98,463)	6.73
Outstanding at December 31, 2002	**4,850,136**	**5.01**
Options exercisable at the end of the year		
2001	4,318,524	1.90
2002	3,684,298	3.09

The weighted average fair value of the 605,000 options granted during the year ended December 31, 2002 was $3.5 million.

All stock options outstanding as of August 3, 2001 were re-priced in connection with the special dividend that was issued by the Corporation. The exercise price was reduced by C$3.78 per share. Certain options had exercise prices less than C$3.78. For these options, the Corporation recorded the cash payable upon exercise of $0.56 million as a dividend.

	Outstanding Options			Exercisable Options	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
			(Cdn$)		*(Cdn$)*
As at December 31, 2002					
0 to 2.5	**2,628,443**	**2.19**	**0.58**	**2,543,965**	**2.20**
2.5 to 7.5	**308,750**	**3.12**	**5.55**	**92,500**	**3.04**
7.5 to 12.5	**1,307,943**	**3.62**	**9.32**	**897,833**	**5.34**
12.5 to 17.5	**605,000**	**4.94**	**14.65**	**150,000**	**14.65**
	4,850,136			**3,684,298**	

The Corporation uses the intrinsic value method in accounting for stock options and accordingly provides pro forma disclosure of net income and net income per share as if the fair value method had been applied.

The pro forma net income per share had we applied the fair-value based method of accounting for stock options follows.

	2002	2001	2000
Net income			
As reported	**162,568**	169,340	154,930
Pro forma	**160,038**	165,693	148,439
Basic net income per share			
As reported	**2.01**	2.12	2.19
Pro forma	**1.98**	2.08	2.10
Diluted net income per share			
As reported	**1.93**	2.02	2.12
Pro forma	**1.90**	1.98	2.03

The estimated fair value of the stock options issued were determined using the Black-Scholes option pricing model with the following assumptions:

	2002	2001	2000
Risk-free interest rate	**3.96%**	4.69%	5.16%
Expected option life	**5 years**	5 years	5 years
Expected volatility in the price of the Corporation's common shares	**68%**	66%	70%
Expected dividends	**–**	–	–

NOTE 17

INCOME TAXES

The Corporation and its subsidiaries are required to file tax returns in each of the jurisdictions in which they operate. The prime operating jurisdiction is Kazakhstan with substantially all income earned in Kazakhstan.

The provision for income taxes differs from the results, which would have been obtained by applying the statutory tax rate of 30% to Hurricane's income before income taxes. This difference results from the following items:

	2002	2001	2000
Statutory Kazakhstan income tax rate	**30%**	30%	30%
Expected tax expense	**79,539**	71,898	79,370
Non-deductible amounts, net	**16,230**	7,619	23,726
Lower tax rate for South Kumkol field	**–**	(2,338)	(2,388)
Reversal of lower tax rate for South Kumkol field	**4,726**	–	–
Income tax withheld on joint venture dividend	**–**	2,500	–
Future tax recognized	**–**	(11,285)	(1,051)
Income tax expense	**100,495**	68,394	99,657

The following are the major future income tax assets and liabilities arising from temporary differences between the carrying values and tax basis of the following assets and liabilities:

	2002	2001
Future income tax assets:		
Fixed assets	**21,331**	23,045
Provision for doubtful debts	**2,707**	5,265
Provision for obsolete inventories	**1,096**	1,134
Provision for royalties	**4,777**	2,068
Provision for inter-company profit eliminations	**3,390**	3,698
Other	**277**	–
Total future income tax assets	**33,578**	35,210
Less: current portion of future income tax assets	**9,049**	5,766
Long-term future income tax assets	**24,529**	29,444
Future income tax liabilities:		
Fixed assets	**17,015**	24,988

The Corporation's principal subsidiaries, HKM and HOP, and the Corporation's other subsidiaries and joint ventures operating in Kazakhstan are separate taxpayers under Kazakhstani tax legislation.

Taxes are payable in Kazakhstan based on financial statements prepared in accordance with the laws of Kazakhstan rather than financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The majority of the differences between the two sets of financial statements are temporary differences where an expense or revenue item is recorded for Canadian GAAP purposes in a different period than allowed under Kazakhstani law. The provision for Kazakhstani income taxes has been calculated by applying the Kazakhstani statutory tax rate of 30% to the income of Hurricane's Kazakhstan subsidiaries.

NOTE 18

NET INCOME PER SHARE

The income per share calculations are based on the weighted average and diluted numbers of Class A common shares outstanding during the period as follows:

	2002	2001	2000
Weighted average number of common shares outstanding	**80,853,597**	79,807,038	70,590,314
Dilution from exercisable options (including convertible securities)	**3,346,939**	3,842,122	1,637,198
Dilution from Series 5 warrants	**–**	–	901,642
Diluted number of shares outstanding	**84,200,536**	83,649,160	73,129,154

No options were excluded from the calculation of diluted number of shares outstanding for the years ended December 31, 2002 and 2001 and in 2000, 385,870 options were excluded as the exercise price was in excess of market price.

NOTE 19

FINANCIAL INSTRUMENTS

The nature of the Corporation's operation and issuance of long-term debt exposes the Corporation to fluctuations in commodity prices, foreign currency exchange rates, interest rates and credit risk. The Corporation recognizes these risks and manages its operation in a manner such that exposure to these risks is minimized to the extent practical.

The Corporation's financial instruments include cash, accounts receivable, all current liabilities and long-term debt. The fair value of cash, accounts receivable and current liabilities approximates their carrying amounts due to the short-term maturity of these instruments. The fair value of Kazgermunai debt and HOP bonds approximate their carrying value as they bear interest at market rates. The fair value of the 12% Notes is $212.4 million versus the carrying value of $208.2 million.

Commodity price risk

The Corporation has entered into a commodity-hedging program where it is utilizing derivative instruments to manage the Corporation's exposure to fluctuations in the price of crude oil. The Corporation has entered into the following contracts with a major financial institution.

Contract Amount *(bbls per month)*	Contract Period	Contract Type	Price Ceiling *($/bbl)*	Price Floor *($/bbl)*
187,500	January 2003 to December 2003	Zero cost collar	29.00	17.00
75,000	January 2003 to December 2003	Zero cost collar	30.00	17.00
112,500	January 2003 to December 2003	Zero cost collar	29.00	18.00
75,000	January 2003 to December 2003	Zero cost collar	29.50	19.00

For the year ended December 31, 2002, the Corporation had Brent IPE futures contracts in place for 600,000 bbls at a Brent price of $25.27 and 500,000 bbls at a Brent price of $25.22. Through these contracts the Corporation has foregone revenue of $1.5 million.

Foreign currency exchange rate risk

Export revenues are denominated in U.S. dollars and domestic sales of refined products and crude oil are made in the Tenge equivalent to U.S. dollars at the time of sale. Substantial portions of the Corporation's operating costs are denominated in Tenge. The Corporation manages this exposure by operating in manner that minimizes the need to convert between these currencies.

The Corporation through its Downstream operations has foreign currency exposure as the tax basis of its assets are denominated in Tenge. For Upstream the Corporation has the possibility to revalue the tax basis of its assets using the official annual rate of inflation through the tax stability provisions of its Hydrocarbons contracts. There is no significant forward market for the Tenge, therefore, the Corporation does not hedge this exposure.

Interest rate risk

The Corporation manages its interest rate risk through utilizing fixed and floating rate debt to finance its operations. The floating rate debt exposes the Corporation to fluctuations in interest payments due to changes in interest rates.

Credit risk

A substantial portion of the Corporation's accounts receivable are with customers in the energy industry and are subject to normal industry risk. The Corporation's sales of crude oil and refined products are supported by letters of credit issued by major financial institutions.

NOTE 20

RELATED PARTY TRANSACTIONS

Transactions with Turgai

During the year ended December 31, 2002 the Corporation purchased crude oil from Turgai for $110.0 million, out of which 50%, being $55.0 million, was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

During the year ended December 31, 2001 the Corporation purchased crude oil from Turgai for $105.8 million, out of which 50%, being $52.9 million, was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

During the year ended December 31, 2000 the Corporation purchased crude oil from Turgai for $35.1 million, out of which 50%, being $17.5 million was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

As at December 31, 2002 the Corporation has a loan receivable from Turgai for $11.0 million ($6.0 million as at December 31, 2001).

During the year ended December 31, 2002 the Corporation entered into an agreement with Turgai, under which Turgai owns 50% of the KAM pipeline and gas utilization projects. Under this agreement the Corporation has received payments of $27.5 million (50% – $13.75 million) from Turgai during 2002.

Transactions with Kazgermunai

During the year ended December 31, 2002 the Corporation purchased crude oil from Kazgermunai for $12.6 million, out of which 50%, being $6.3 million was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

During the year ended December 31, 2001 the Corporation purchased crude oil from Kazgermunai for $5.2 million, out of which 50%, being $2.6 million was eliminated on consolidation of the Corporation's 50% joint venture interest. The remaining 50% remains in cost of purchased crude oil.

There were no purchases of crude oil from Kazgermunai during the year ended December 31, 2000.

NOTE 21

CASH FLOW INFORMATION

Interest and income taxes paid:

	2002	2001	2000
Interest paid	**30,622**	7,491	35,366
Income taxes paid	**97,903**	102,238	81,082

Changes in non-cash operating working capital items include:

	2002	2001	2000
Increase in accounts receivable	**(40,144)**	(16,573)	(30,414)
Increase in inventory	**(10,583)**	(9,138)	(15,677)
Increase in prepaid expenses	**(27,275)**	(7,089)	(7,381)
Increase (decrease) in accounts payable and accrued liabilities	**47,318**	(11,044)	30,395
Increase (decrease) in prepayments for crude oil and refined products	**(3,882)**	(4,552)	11,974
HOP working capital acquired, excluding cash (Note 4)	**–**	–	33,548
Kazgermunai working capital acquired on proportionate consolidation, excluding cash (Note 6)	**–**	–	1,533
Decrease in receivable from joint venture	**–**	–	7,554
	(34,566)	(48,396)	31,532

Changes in long-term debt includes:

	2002	2001	2000
Proceeds from HOP bonds	–	13,227	–
Proceeds from term facility	**(16,000)**	16,000	–
12% Notes repurchased	–	(900)	–
12% Notes sold, net of discount	**17,195**	14,080	–
Repayment of Kazgermunai debt	**(18,853)**	(26,659)	–
Repayment of Canadian and U.S. notes	–	(24,006)	(173,860)
	(17,658)	(8,258)	(173,860)

NOTE 22

COMMITMENTS AND CONTINGENCIES

Kazakhstani environment

Kazakhstan, as an emerging market, has a business infrastructure that is not as advanced as those usually existing in more developed free market economies. As a result, operations carried out in Kazakhstan can involve risks that are not typically associated with those in developed markets.

The development of instability in the ongoing market transformation process could lead to changes in the fundamental business infrastructure in which the Corporation currently operates. Changes in the political, legal, tax or regulatory environment could adversely impact the Corporation's operations.

Government taxes and legislation

The local and national tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretation and enforcement. Non-compliance with Kazakhstan laws and regulations can lead to the imposition of penalties and interest.

The Corporation through its operating subsidiaries in Kazakhstan, has disputed tax assessments received for the years 1998 through 2001.

The Corporation has been engaged in two court cases in Kazakhstan pertaining to the disputed assessments for 1998 and 1999. The first involved HOP and was for approximately $8.8 million. HOP has successfully argued its case at the first level of the court system in Kazakhstan and at the Supreme Court level. There is a possibility that the Ministry of State Revenue may appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. No provision has been made in the consolidated financial statements for this assessment.

The second case involved HKM and was for a total of approximately $10.5 million including taxes, fines, interest and penalties. HKM was successful at the first level of the court system and was unsuccessful on the majority of the issues at the Supreme Court level. HKM has until April 18, 2003 to appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. To date HKM has been unsuccessful in obtaining the Supervisory Commission's agreement to hear its appeal on the assessed taxes. However, HKM is currently disputing $7.6 million of the $10.5 million related to penalties assessed, as HKM believes there was an incorrect application of the provisions of the tax act. No provision has been made for the disputed penalties. The Corporation has provided for $2.9 million of the $10.5 million in the December 31, 2002 consolidated financial statements. The assessments received for 1998 and 1999 challenged South Kumkol receiving the free economic zone taxation rate of 20% versus the statutory rate of 30% without specifying an amount. As HKM has been unsuccessful in obtaining leave to appeal, it has provided for $4.5 million, which represents the additional taxes due when the 30% statutory rate is applied for South Kumkol from the beginning of 1999 through to the end of 2001. HKM continues to dispute the entire assessment, as it believes the tax stability provisions of its Hydrocarbons Contract establish that HKM is not subject to the assessed taxes.

The Corporation has provided for an additional $2.2 million of taxes relating to the 1998 and 1999 assessments for the years 2000 and 2001.

The Corporation, through its operating subsidiaries in Kazakhstan received tax assessments for 2000 and 2001 amounting to $56.0 million, which have been reduced through negotiations to $45.0 million (including our 50% share of Turgai's assessments). The Corporation has not provided for these assessments and has filed court cases disputing these assessments. HOP has been successful at the first level of the court system with respect

to the entire $12.5 million of its assessment. Turgai has been successful at the first two levels of the court system on the majority of its assessment of $12.0 million, of which $6.0 million is our 50% share. The HKM court cases relating to its assessment of $26.5 million commenced in February 2003.

Capital expenditures commitment

Pursuant to the Share Sale-Purchase Agreement with the Republic of Kazakhstan, a commitment was made to invest, in Kazakhstan, an aggregate of $280 million in capital expenditures, investments or other items that may be treated as capital assets of HKM on or before December 31, 2002. These expenditures were to be used to further exploit and develop existing fields and to explore for new additional reserves to enhance future production and revenues. If the required investment is not made within the agreed time period, Hurricane may be required under the terms of the Agreement to pay a penalty of 15% of the amount not invested. As at December 31, 2002, the Corporation believes it has met this commitment. The expenditures and commitments remain subject to audit and certification by the Government of Kazakhstan, under the terms of the Share Sale-Purchase Agreement.

For HOP capital commitments see Note 4.

Legal proceedings

The Corporation and its subsidiary HKM are Claimants in Arbitration Proceedings being conducted under the auspices of the International Court of Arbitration of the International Chamber of Commerce, in Paris, France. The Corporation and HKM are claiming damages in the amount of $31.5 million. The Corporation contends that the defendants, EEG-Erdgas Erdol Gmbh and RWE-DEA AG (the joint venture partners of HKM in the joint venture Kazgermunai LLP) have acted in breach of the Foundation Agreement of the Kazgermunai LLP and certain other related agreements. No amount has been recorded in the consolidated financial statements as at December 31, 2002.

The Corporation had been named as defendant in a claim filed by a company alleging it was retained under a consulting contract since January 17, 1997 until services were suspended in May 1999. The liquidated principal amount claimed was, in aggregate, $6.6 million and an additional unspecified amount was claimed as an alleged penalty provision, with the total claim not to exceed $35.0 million. The arbitration decision has been received and the Corporation has paid $7.1 million for full settlement of the claim.

The Corporation has been named as defendant in a claim filed by a company alleging breach of a consulting contract, in aggregate of $4.7 million. The Corporation believes this claim is without merit and, accordingly, no amount has been recorded in the consolidated financial statements at December 31, 2002.

The Corporation has been named as a defendant in a claim filed by a company alleging a breach of an agreement in the amount of $2.4 million. The Corporation believes this lawsuit is without merit and, accordingly, no amount has been recorded in the consolidated financial statements at December 31, 2002.

Excess profit tax

The Corporation through its subsidiary HKM and joint venture Turgai is subject to excess profit tax under the terms of the Hydrocarbon Exploration and Production contracts they have for oil and gas production. The contracts are specific to each field.

Excess profit tax is in addition to statutory income taxes, which are at a rate of 30%, and excess profit tax takes effect after the field has achieved a cumulative internal rate of return higher than 20% for the specific field. The excess profit tax ranges from 0% to 30% of taxable income for the year for HKM and from 0% to 50% for Turgai. The Corporation did not incur excess profits tax in 2002; it may be subject to excess profit tax for the year ended December 31, 2003 and subsequent years in certain of its fields.

Environmental matters

Extensive national, regional and local environmental laws and regulations in Kazakhstan affect nearly all of our operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality provide for user fees, penalties and other liabilities for the violation of these standards and establish, in some circumstances, obligations to remediate current and former facilities and off-site locations.

The Corporation believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, as new environmental laws and legislation are enacted and the old laws are repealed, interpretation, application and enforcement of the laws may become inconsistent. Compliance in the future could require significant expenditures, which may adversely effect the Corporation's operations.

NOTE 23

SUBSEQUENT EVENTS

Redemption of 12% Notes

On February 3, 2003 the Corporation redeemed all $208,210,000 of its outstanding 12% Notes due in 2006. The Notes were redeemed for an aggregate redemption price of $212,374,200, representing 102% of the principal amount of the Notes, plus accrued and unpaid interest of $12,492,600, for a total of $224,866,800. The deferred charges of $1.4 million recorded as at December 31, 2002 will be expensed upon redemption.

New financing arrangements

On January 2, 2003, HKM entered into a secured $225.0 million facility agreement. HKM has drawn down $190.0 million under this facility. This facility will be repaid in 42 equal installments commencing in July 2003. The facility bears interest at a rate of LIBOR plus 3.25% per annum.

On February 12, 2003, Hurricane Finance B.V., a wholly owned subsidiary of HKM and a special purpose entity, issued U.S.$125.0 million 9.625% Notes due February 12, 2010. The Notes are unconditionally guaranteed by the Corporation, HKM and HOP.

HOP bonds

On February 13, 2003, HOP issued the remaining 115,200 Bonds (par value $100) for consideration of $11.4 million.

NOTE 24

RECONCILIATION OF RESULTS FROM CANADIAN GAAP TO U.S. GAAP

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which conform in all material respects with those applicable in the United States ("U.S. GAAP"), except as set forth below:

Income taxes

Effective January 1, 2000 the Corporation adopted the recommendations of the CICA with respect to accounting for future income taxes and applied this policy retroactively without restatement of prior period consolidated financial statements. This new method differs from U.S. GAAP due to the application of transitional provisions and the accounting for certain tax incentives. In prior years a valuation allowance had been made against the deferred tax asset for U.S. GAAP purposes. This valuation allowance was released in 2000.

Foreign currency translation

Hurricane's principal operating subsidiaries are HKM and HOP and for Canadian GAAP are classified as integrated which leads to the use of the temporal method of translation (Note 1). Under U.S. GAAP, the Corporation, on a consolidated basis, is required to translate the accounts of its principal operating subsidiaries using the current rate method. The significant changes which result from this difference are a reduction in the carrying value of capital assets and the creation of a cumulative translation account within the equity section of the balance sheet, which reduces total equity.

Accounting for commodity hedges

The Corporation has entered into a commodity hedging program where it is utilizing derivative instruments as described in Note 19. The Corporation has designated these as cash flow hedges under FAS 133 and recognizes in earnings, changes in fair value of these derivatives in the same period as the hedged item. Any change in the fair value of these cash flow hedges before that period are recognized in the balance sheet and in other comprehensive income. $4.4 million is included in accounts payable and in comprehensive income for the year ended December 31, 2002.

Accounting for oil and gas properties

The Corporation has completed a ceiling test calculation under U.S. GAAP at December 31, September 30, June 30 and March 31, in 2002, 2001 and 2000.

There are certain differences between the full cost method of accounting for oil and gas assets as applied in Canada and as applied in the United States. The Corporation has reviewed such differences and determined that no variances in financial statement balances would have resulted from the application of full cost accounting in accordance with U.S. GAAP.

Consolidated Statements of Income

The application of U.S. GAAP would have the following effects on net income as reported:

Years ended December 31	2002	2001	2000
Net income as reported in accordance with Canadian GAAP	**162,568**	169,340	154,930
Accounting for income taxes	–	(6,157)	19,061
Amortization of debt issue costs	**(29)**	(540)	(7,039)
Amortization of discount on debt	–	–	(981)
Net income under U.S. GAAP	**162,539**	162,643	165,971
Basic income per share under U.S. GAAP	**2.01**	2.04	2.35
Diluted income per share under U.S. GAAP	**1.93**	1.94	2.26
Comprehensive income			
Foreign exchange translation adjustment	**(2,235)**	(1,598)	(6,111)
Fair value adjustment cash flow hedges	**(4,392)**	–	–
Total comprehensive income	**155,912**	161,045	159,860

Stock based compensation

The Corporation has a stock-based compensation plan as described in Note 16. With regard to its stock option plan, the Corporation applies APB Opinion No. 25 in accounting for this plan and accordingly no compensation expense has been recognized. Had compensation expense been determined based on fair value at the grant dates for the stock option grants consistent with the method of SFAS No. 123, the Corporation's net income and net income per share would have been reduced to the pro forma amounts as indicated below:

Years ended December 31	2002	2001	2000
Net income under U.S. GAAP:			
As reported	**162,539**	162,643	165,971
Pro forma	**160,009**	158,996	159,480
Basic net income per share:			
As reported	**2.01**	2.04	2.35
Pro forma	**1.98**	1.99	2.26
Diluted net income per share:			
As reported	**1.93**	1.94	2.27
Pro forma	**1.90**	1.90	2.18
Stock options vested during period *(thousands)*	**513**	1,013	3,428
Weighted average exercise price	**6.02**	5.90	3.05
Weighted average fair value of options vested during the year	**4.93**	3.60	1.89
Weighted average fair value of options granted during the year	**5.73**	4.69	2.05

The foregoing information is calculated in accordance with the Black-Scholes option pricing model, using the following data and assumptions: volatility, as of the date of grant, computed using the prior one to three-year weekly average prices of the Corporation's common shares, which ranged from 66% to 70%; expected dividend yield – 0%; option terms to expiry – 5 years as defined by the option contracts; risk-free rate of return as of the date of grant – 3.96% to 5.16%, based on five year Government of Canada Bond yields.

Consolidated Balance Sheets

The application of United States GAAP would have the following effects on balance sheet items as reported:

	As reported	Increase (Decrease)	U.S. GAAP
December 31, 2002			
Current assets	**261,399**		**261,399**
Deferred charges	**5,321**		**5,321**
Property, plant and equipment	**405,479**	**(48,645)**	**356,834**
Future income tax assets	**24,529**	**(6,157)**	**18,372**
Current liabilities	**125,563**	**4,392**	**129,955**
Long-term debt	**266,603**		**266,603**
Future income tax liability	**17,015**		**17,015**
Provision for future site restoration	**4,167**		**4,167**
Minority interest	**10,753**		**10,753**
Preferred shares of subsidiary	**83**		**83**
Shareholders' equity	**272,544**	**(59,194)**	**213,350**
December 31, 2001			
Current assets	170,130		170,130
Deferred charges	3,408		3,408
Property, plant and equipment	332,896	(46,409)	286,487
Future income tax assets	29,444	(6,157)	23,287
Long-term investments	40,000		40,000
Current liabilities	108,737		108,737
Long-term debt	281,175	(29)	281,146
Future income tax liability	24,988		24,988
Provision for future site restoration	3,148		3,148
Minority interest	25,599		25,599
Preferred shares of subsidiary	91		91
Shareholders' equity	132,140	(52,537)	79,603

Impact of new and impending U.S. GAAP Accounting Standards

Statement of Financial Accounting Standards No. 143 ("FAS 143") – Accounting for Asset Retirement Obligations

FAS 143, Accounting for Asset Retirement Obligations, is effective for financial statements issued for fiscal years beginning after June 15, 2002. FAS 143 applies to the legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, development and/or the normal operation of a long- lived asset, except for certain obligations of lessees. The Corporation has not yet evaluated the effect that FAS No 143 will have on the consolidated financial statements.

Statement of Financial Accounting Standards No. 144 ("FAS 144") – Accounting for the Impairment or Disposal of Long-Lived Assets

FAS 144, Accounting for the Impairment or Disposal of Long Lived Assets, supersedes both FAS No. 121 and the accounting and reporting provisions of APB Opinion No.30. FAS 144 retains the fundamental provisions of FAS121 for recognizing and measuring impairment losses on long-lived assets. FAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity rather than a segment of a business. FAS 144 is effective for all fiscal years beginning after December 15, 2001. Adoption of SFAS 144 on January 2002 did not have a material impact on the Corporation's consolidated financial statements.

Statement of Financial Accounting Standards No. 145 ("FAS 145") – Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", addressed income statement classification of gains and losses from extinguishment of debt. SFAS No. 64 amended SFAS No. 4 and is no longer necessary due to the rescission of SFAS No. 4. SFAS No. 145 also amended SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Management believes that SFAS No. 145 will have no impact on the Corporation's financial statements.

Statement of Financial Accounting Standards No. 146 ("FAS 146") – Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which requires the recognition of a liability when incurred for costs associated with an exit or disposal activity. Management does not believe that SFAS No. 146 will have a material impact on the Corporation's financial statements.

Statement of Financial Accounting Standards No. 147 ("FAS 147") – Acquisitions of Certain Financial Institutions – an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions – an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9". Management does not believe that SFAS No. 147 is applicable to the Corporation's financial statements.

Statement of Financial Accounting Standards No. 148 ("FAS 148") – Accounting for Stock-based Compensation Transition and Disclosure – an Amendment of FASB Statement No. 123

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-based Compensation Transition and Disclosure – an Amendment of FASB Statement No. 123", to provide alternative methods of accounting for stock-based employee compensation. SFAS No. 148 is effective for fiscal years ending after December 15, 2002 and interim periods beginning after December 15, 2002. Management does not believe that SFAS No. 148 will have a material impact on the Corporation's financial statements.

Interpretation No. 45 – Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation sets forth expanded disclosure requirements in the financial statements about a guarantor's obligations under certain guarantees that it has issued. It also clarifies that, under certain circumstances, a guarantor is required to recognize a liability for the fair value of the obligation at the inception of the guarantee. Certain types of guarantees, such as product warranties, guarantees accounted for as derivatives, and guarantees related to parent-subsidiary relationships are excluded from the liability recognition provisions of Interpretation No. 45, however, they are subject to the disclosure requirements. The initial liability recognition provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of Interpretation No. 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. As at December 31, 2002, the Corporation had not issued guarantees that entail this disclosure. The Corporation has not yet determined if the adoption of the new rules will have a material impact on its financial position or results of operations.

Interpretation No. 46 – Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Interpretation No. 46 prescribes how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Interpretation No. 46 is effective immediately for variable interest entities created after January 31, 2002, and to variable interest entities in which an enterprise obtains an interest after that date. The interpretation applies in the fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Corporation does not believe the adoption of Interpretation No. 46 will have a material impact on its financial position or results of operations.

Consolidated Statements of Income and Deficit reclassifications

Interest and other income is presented within revenue under Canadian GAAP, under U.S. GAAP this would be presented as a separate line item after operating income.

Interest and financing costs is presented within expenses under Canadian GAAP, under U.S. GAAP this would be presented as a separate line item after operating income.

Unusual items as presented under Canadian GAAP would be included within expenses under U.S. GAAP.

Historical financial data

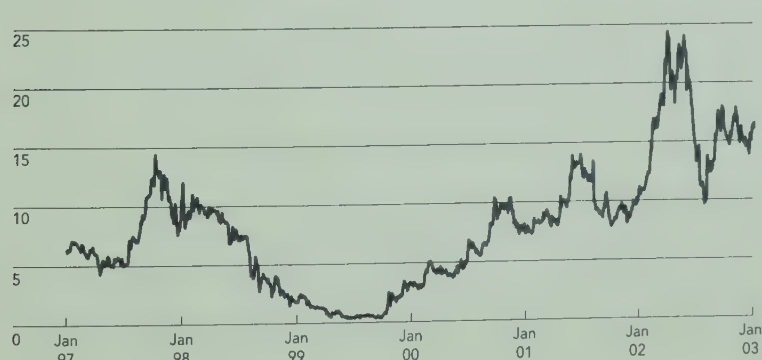
Years ended December 31

(UNAUDITED)

	2002	2001	2000	1999	1998	1997
INCOME						
Revenue	**814.7**	603.1	523.2	155.2	175.9	94.8
Expenses	**(497.3)**	(323.7)	(223.5)	(136.8)	(153.9)	(56.0)
Depletion and depreciation	**(45.1)**	(34.3)	(14.7)	(2.9)	(55.3)	(15.9)
Ceiling test write-downs	**–**	–	–	(2.1)	(173.4)	–
Income taxes	**(100.5)**	(68.4)	(99.7)	(17.7)	(22.6)	(7.1)
Unusual items	**(7.1)**	(5.5)	(20.4)	12.8	–	–
Minority interest	**(2.1)**	(1.9)	(10.0)	–	–	–
Net Income (Loss)	**162.6**	169.3	154.9	8.5	(229.3)	15.8
CASH FLOW						
Cash flow	**216.8**	200.3	179.4	17.0	0.6	32.0
Shares issued	**1.4**	0.7	26.7	–	2.3	0.3
Capital expenditures (net)	**140.1**	102.7	17.0	15.2	113.0	47.3
BALANCE SHEET						
Property, plant and equipment	**405.5**	332.9	264.5	87.6	76.8	178.8
Long-term debt	**266.6**	281.2	82.0	–	–	180.5
Net debt	**217.8**	268.9	47.8	167.8	178.1	154.9
Shareholders' Equity	**272.5**	132.1	185.0	(87.6)	(96.0)	130.9
Production *(mbopd)*	**135.8**	100.9	84.1	64.3	53.1	45.0
Reserves (as of January 1 of the following year) *(proved plus probable) (mmbbls)*	**518.3**	512.3	487.6	458.6	449.5	429.9
STATISTICS						
Weighted average common shares outstanding *(millions)*	**80.85**	79.81	70.59	44.51	44.24	42.83
Per Share (basic)						
Net income (loss)	**$ 2.01**	$ 2.12	$ 2.19	$ 0.19	$ (5.18)	$ 0.37
Cash flow	**$ 2.68**	$ 2.51	$ 2.54	$ 0.38	$ 0.01	$ 0.75
Market Price for shares						
Toronto (C$) – High	**25.70**	14.30	11.25	3.65	12.00	14.40
Low	**8.27**	7.10	2.70	0.25	1.40	5.05
Close	**16.48**	10.80	7.65	3.30	1.76	11.10
United States (U.S.$) – High	**16.05**	9.05	7.50	2.50	8.66	10.52
Low	**5.23**	4.41	1.06	0.06	0.84	3.67
Close	**10.42**	6.82	5.08	2.23	1.16	7.80

SHARE PRICE PERFORMANCE

(DAILY CLOSING PRICE IN C$ PER SHARE)



Officers of Hurricane Hydrocarbons Ltd.

BERNARD F. ISAUTIER

Director, Chairman of the Board, President and Chief Executive Officer

Bernard F. Isautier was appointed Chief Executive Officer of Hurricane Hydrocarbons Ltd. on September 28, 1999 and Chairman of the Board and President on October 18, 1999. He has been a director of Hurricane since March 19, 1996. He has degrees in Mathematics and Physics from the Polytechnique School of Paris, an Engineering degree from the Mining School of Paris and a Masters of Business Administration from the Institute of Political Sciences in Paris.

Mr. Isautier is currently a director of a number of companies. From 1993 to 1995, he was President and Chief Executive Officer of Canadian Occidental Petroleum Ltd., and from 1990 to 1992, he was Chairman and Chief Executive Officer of Thomson Consumer Electronics Company, a French electronics company.

Prior to 1990, Mr. Isautier served as President and Chief Executive Officer of Polysar Energy and Chemicals Corp. in Toronto, Canterra Energy Ltd. and Aquitaine of Canada in Calgary. Early in his career, Mr. Isautier served as an advisor to the French Minister of Energy and Industry and as an advisor on uranium development to the President of the Republic of Niger. Mr. Isautier is a citizen of Canada and France.

MARLO C. THOMAS

Executive Vice President

Marlo C. Thomas was appointed Executive Vice President in October 2002. In addition, Mr. Thomas is President of Hurricane Kumkol Munai OJSC (HKM), a position he assumed on July 1, 1999 and President of Hurricane Oil Products, a position he has held since September 2000.

Mr. Thomas brings with him 30 years of experience in the oil and gas industry including project start-ups, development and operations in both developed and emerging market countries.

Mr. Thomas joined Hurricane March 1, 1998 as Director, Construction, Maintenance and Transportation Services for HKM. Before Joining Hurricane, Mr. Thomas worked in the oil fields of Northern and Western Canada, Northern Russia and South Central Sudan.

After receiving his initial training in the oil industry from Mackenzie Valley Pipeline and Trans Mountain Pipeline in Canada, Mr. Thomas joined Gulf Canada in 1976. He worked for Gulf Canada in various positions and areas of Western Canada and Russia. In 1992 Mr. Thomas took the position in KomiArcticOil (JV with Gulf Canada and British Gas) as Manager of Operations and Construction where he worked until December 1996. In December 1996, Mr. Thomas left KomiArcticOil and joined the Sudanese State Petroleum Company as the Field Operations Manager in their South Central Sudan oilfield development project where he worked until joining Hurricane.

MIKE AZANCOT

Senior Vice President, Exploration and Production

Mike Azancot was appointed Senior Vice President, Exploration and Production of Hurricane Hydrocarbons Ltd. on February 20, 2000. He holds a Bachelor of Science in Mechanical Engineering and a Master's Degree in Petroleum Engineering from Heriot Watt University, Edinburgh, United Kingdom. He has 24 years of experience in the oil and gas industry including international exploration and production.

Prior to joining Hurricane he held key positions with Occidental Petroleum in the UK and China and with Lasmo Plc in Indonesia and the UK where he was General Manager for Production and Operations of their European and North African assets.

NICHOLAS H. GAY

Senior Vice President, Finance and Chief Financial Officer

Nicholas Gay was appointed Senior Vice President Finance and Chief Financial Officer of Hurricane Hydrocarbons Ltd. effective October 1, 2001. He holds a Bachelor of Arts Honors degree in Economics and Economic History from the University of Durham, and is a Fellow of the UK Institute of Chartered Accountants and an Associate Member of the Chartered Institute of Taxation. He has 26 years of international experience in the oil and gas industry.

Prior to joining Hurricane he was President and CEO of Bitech Petroleum Corporation, CFO of PanAfrican Energy Corporation (formerly Ocelot International), both being Canadian companies and Managing Director of Brabant Petroleum Plc based in the UK.

From 1984 to 1991, Mr. Gay worked at Kerr-McGee (UK) Plc where he held various positions including Director of Finance and Administration. Prior to 1984, he worked at LL&E (UK) Inc. and Arthur Andersen & Co.

ANTHONY R. PEART

Senior Vice President, General Counsel and Corporate Secretary

Tony Peart was appointed Senior Vice President, General Counsel and Corporate Secretary of Hurricane Hydrocarbons Ltd. on December 1, 2000. He is an Attorney with degrees in Law and Arts from the University of Witwatersrand in South Africa. He also holds a Post Graduate Diploma in Business Administration from the University of Ghent Business School in Belgium and has completed the Program for Management Development at the Harvard Business School. He has 24 years of experience in the oil and gas industry in management, legal and corporate affairs.

Prior to joining Hurricane he was most recently Managing Director of Bula Resources (Holdings) Plc, an oil company listed on the London and Dublin Stock Exchanges. He was previously Managing Director of MMS Petroleum Plc, a UK junior oil company, and prior to that Mr. Peart held various management positions at Lasmo Plc, Ultramar Exploration Ltd. and Veba Oil and Gas in the United Kingdom.

DERMOT HASSETT

Vice President, Marketing and Transportation

Dermot Hassett was appointed Vice President, Marketing and Transportation of Hurricane Hydrocarbons Ltd. effective September 1, 2002. For two years prior to his appointment Mr. Hassett was Vice President Marketing and Trading for Hurricane's operating subsidiaries, Hurricane Kumkol Munai and Hurricane Oil Products based in Almaty, Kazakhstan.

He has 24 years of international experience in the oil and gas industry.

Prior to joining Hurricane he was Business Unit Director of Elf Oil UK Limited, Managing Director of Elmgrade Ltd. and held various positions within Amoco UK Ltd. and Mobil Oil UK Ltd..

IHOR P. WASYLKIW

Vice President, Investor Relations

Ihor P. Wasylkiw was appointed Vice President Investor Relations of Hurricane Hydrocarbons Ltd. on March 29, 2000. For two years prior to this appointment Mr. Wasylkiw held the position of Director Investor Relations at Hurricane. Mr. Wasylkiw holds a Bachelor of Science in Mechanical Engineering from the University of Manitoba. He has 24 years of experience in the oil and gas industry.

From 1979 to 1992, Mr. Wasylkiw worked for Shell Canada Limited in various technical and managerial positions. In 1992, he joined Total Gestion Internationale in Paris, France and worked in the former CIS for a number of years in an executive position. Upon his return to Canada, Mr. Wasylkiw spent four years in the investment sector, two years with Research Capital Corp. as a Senior Oil and Gas Analyst.

Mr. Wasylkiw is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and the Canadian Investor Relations Institute. He has been the recipient of the Canadian Petroleum Association Distinguished Service Award.

Corporate information

DIRECTORS

Bernard F. Isautier
President and Chief Executive Officer
Windsor, United Kingdom

Askar Alshinbaev (1) (2) (3)
Managing Director,
OJSC Kazkommertsbank
Almaty, Kazakhstan

James B.C. Doak (1) (3)
President and Managing Partner,
Megantic Asset Management Inc.
Toronto, Ontario

Hon. Robert P. Kaplan (3)
International Business Consultant
Toronto, Ontario

Jacques Lefevre (1) (2)
Vice Chairman, Lafarge S.A.
Paris, France

Louis W. MacEachern (2) (3)
President, Fortune Industries Ltd.
Calgary, Alberta

(1) Audit Committee Member
(2) Compensation Committee Member
(3) Corporate Governance Committee Member

OFFICERS

Bernard F. Isautier
President and Chief Executive Officer

Marlo C. Thomas
Executive Vice President

Mike Azancot
Senior Vice President, Exploration and Development

Nicholas H. Gay
Senior Vice President, Finance and Chief Financial Officer

Anthony R. Peart
Senior Vice President, General Counsel and Corporate Secretary

Dermot Hassett
Vice President, Marketing and Transportation

Ihor P. Wasylkiw
Vice President, Investor Relations

SHARE TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

AUDITORS

Deloitte & Touche
Almaty, Kazakhstan

BANKERS

National Bank of Canada
Calgary, Alberta

Barclays Bank Plc
Nicosia, Cyprus

ABN Amro Bank Kazakhstan
Almaty, Kazakhstan

Citibank
Almaty, Kazakhstan

Bank Turan Alem
Almaty, Kazakhstan

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New York, New York

Denton Wilde Sapte
Almaty, Kazakhstan

Bracewell Patterson
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Salans
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INDEPENDENT RESERVOIR CONSULTANTS

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SHARE LISTINGS

The Toronto Stock Exchange
Trading Symbol – HHL
S&P/TSX
- 100 Composite Index
- Energy Index
- Canadian Midcap Index

New York Stock Exchange
Trading Symbol – HHL

Germany
Frankfurt
Trading Symbol – HHCA

CONVERSION AND EQUIVALENCY TABLES

	Multiply by
Kilometres to Miles	0.621
Metric Tonnes to U.S. barrels for 40° API crude	7.746
Hectares to Acres	2.471
Metres to Feet	3.281

C$1.4988 to the U.S.$1.00 as at December 31, 2000
C$1.5911 to the U.S.$1.00 as at December 31, 2001
C$1.5763 to the U.S.$1.00 as at December 31, 2002
Tenge 145.61 to the U.S.$1.00 as at December 31, 2000
Tenge 147.29 to the U.S.$1.00 as at December 31, 2001
Tenge 155.05 to the U.S.$1.00 as at December 31, 2002

1 square km = .386 square miles
1 square km = 247 acres
1 square mile = 640 acres

ABBREVIATIONS AND DEFINITIONS

API	American Petroleum Institute
bbl	barrel
bbls	barrels
bcf	billion cubic feet
bfpd	barrels of fluid per day
bopd	barrels of oil per day
Brent	Brent dated oil reference price
CICA	Canadian Institute of Chartered Accountants
CIF	Cost, Insurance and Freight
CPC	Caspian Pipeline Consortium
CPF	HKM central processing facility located at South Kumkol
C$	Canadian dollars
CPT	Carriage Paid To
DAF	Delivered at Frontier
EBITDA	Earnings before interest, income taxes, depreciation, depletion and amortization
EBRD	European Bank of Reconstruction and Development
FCA	Free Carrier
FOB	Free On Board
GAAP	generally accepted accounting principles
GDP	Gross Domestic Product
GUP	Gas Utilization Project
HKM	OJSC Hurricane Kumkol Munai
HOP	OJSC Hurricane Oil Products
HS&E	health, safety and environment
H_2S	hydrogen sulphide
IMF	International Monetary Fund
KAM	Kyzylkiya, Aryskum and Maibulak
km	kilometre(s)
km^2	square kilometre(s)
KTO	Kaztransoil
mazut	heavy fuel oil
mbbl	thousand barrels
mbopd	thousand barrels of oil per day
mm	million
mmbbls	million barrels
mmtonnes	million metric tonnes
mm$	million U.S. dollars
NATO	North Atlantic Treaty Organization
OPEC	Organization of Petroleum Exporting Countries
ShNOS	Shymkentnefteorgsyntez
tonnes	metric tonnes
UN	United Nations
U.S.$	United States dollars
VDU	Vacuum Distillation Unit
VGO	Vacuum Gas Oil
$/bbl	U.S. dollars per barrel
2D	two dimensional
3D	three dimensional

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that involve risks and uncertainties. These statements relate to the Corporation's future plans, objectives, expectations and intentions. These statements are identified by the use of words such as "may", "will", "expect", "anticipate", "intend", "plan", "estimate", "believe", "continue" or other similar expressions. These forward-looking statements reflect management's current expectations and assumptions as to future events that may not prove to be accurate. Actual results are subject to a number of risks and uncertainties and could differ materially from those discussed in these statements. In light of the many risks and uncertainties surrounding our business and operations, you should keep in mind that the forward-looking statements described in this document may not transpire. The Corporation undertakes no obligation, and does not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

HURRICANE
HYDROCARBONS LTD.